

1 SAN FRANCISCO, CALIFORNIA, DECEMBER 12, 2005 -1:00 P.M.

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3 COMMISSIONER PEEVEY: We will now commence the
4 quarterly meeting of the Energy Action Plan group now that
5 Commissioner Brown has joined us and the PUC has a quorum
6 here.

7 I am a little uncomfortable being surrounded on my
8 left and right by Commissioner Desmond and Commissioner Boyd
9 here, and all the way to my left literally and figuratively
10 and in every other way, Commissioner John Geesman.

11 (Laughter)

12 COMMISSIONER PEEVEY: I think Commissioner Bohn will
13 be joining us shortly. I do not anticipate Commissioner
14 Kennedy being here today.

15 And I believe that Sunne Wright McPeak will be
16 joining us, tardy as usual.

17 Commissioner Bohn is just joining us.

18 So let me welcome everyone here, my fellow
19 Commissioners. And here we are at the outset of another
20 quarterly meeting of our energy action group.

21 I would like first to ask if any of the members up
22 here on the dais would like to say anything, beginning with
23 Mr. Desmond.

24 Joe.

25 CHAIRPERSON DESMOND: I will keep these remarks very
26 brief. That is simply to welcome everyone for being here
27 today. We have an agenda covering a number of topics, all of
28 them important, natural gas pricing in particular, and the

1 outlook for 2006. I am looking forward to going through the
2 materials here, but we have got a whole day.

3 COMMISSIONER PEEVEY: Anyone else?

4 (No response)

5 COMMISSIONER PEEVEY: If not, why don't we just get
6 right into it.

7 The first thing we are going to do is have an
8 update on the impact of natural gas prices on winter heating.
9 Steve Larson, the CPUC executive director, is going to walk
10 us through that with a presentation.

11 Your voice is all fine and recovered?

12 MR. LARSON: Right.

13 COMMISSIONER PEEVEY: Very good.

14 STATEMENT OF MR. LARSON

15 MR. LARSON: Thank you, Mr. President, Chairman,
16 members of the Commission.

17 PUC has recently taken steps to help lessen the
18 impact of this winter's rising natural gas prices on
19 consumers.

20 We have simplified enrollment in low-income
21 programs and increased eligibility so that more customers
22 qualify for a 20 percent discount on utility bills.

23 We have established a no shut-off policy as long
24 as minimum bill payments are made.

25 In addition, low-income customers will not be
26 dropped from programs during the winter months for failure to
27 recertify income eligibility.

28 We have required utilities to waive reconnection

1 fees and deposits for qualifying low-income customers this
2 winter.

3 We have directed utilities to expand and improve
4 programs that allow customers to pay level bill amounts
5 throughout the year.

6 We have approved a so-called 10/20 plan for PG&E
7 that offers a 20 percent discount for customers who reduce
8 their natural gas usage by 10 percent or more.

9 For SoCalGas customers we have approved using low
10 cost storage natural gas to supply low-income customers,
11 saving tens of millions of dollars.

12 We have approved expanded natural gas purchase
13 insurance through hedging for utilities to protect against
14 even higher natural gas prices.

15 There are a number of ways the PUC is ensuring the
16 state has adequate natural gas supplies and infrastructure.
17 One way is through the energy efficiency.

18 Thus, we have launched the most ambitious energy
19 efficiency and conservation campaign in the United States,
20 approving over \$2 billion for energy efficiency programs for
21 2006 through 2008, much of which has implications in terms of
22 natural gas.

23 Other ways the PUC is ensuring the state has
24 adequate natural gas supplies and infrastructure is through
25 renewable energy power and market monitoring.

26 As much as 50 percent of California's natural gas
27 demand goes to generate electricity. Renewable power we
28 think will lower the natural gas demand for use in electric

1 generation.

2 I think, as you all know, the Energy Action Plan 2
3 includes a goal of 20 percent renewable power used by each
4 electric utility by 2010, and endorses an aggressive effort
5 to achieve 33 percent renewable generation by 2020.

6 And sort of as an aside, the draft report on the
7 33 percent goal issued. A workshop was held on November
8 17th, and comments on the draft report have been received,
9 were received as of December 1st.

10 I would also add concerning natural gas that we
11 have instituted regular meetings with the gas utilities to
12 monitor for problems.

13 We had one about two weeks ago in which we
14 discussed with the gas companies how quickly they were
15 implementing the programs, where they were at, and would they
16 be ready by December and January. Our next meeting is
17 scheduled with that group for January, around January the
18 15th.

19 In addition, the PUC is working with other states
20 and federal agencies, including the Attorney General's
21 office, conducting regular reviews and analysis of natural
22 gas market information and data to protect consumers from
23 possible price manipulation.

24 Finally, just sort of to summarize some of the
25 specific consumer rebate programs, consumer and rebate
26 programs that are available to consumers to lower or manage
27 their natural gas bills, there is the California alternate
28 rates for energy program, the CARE program. This is our

1 ongoing program. We have expanded it some for eligible
2 low-income customers to receive a 20 percent bill discount.

3 We also have the family electric rate assistance
4 program, FERA, lower rates for qualifying customers. There
5 is of course the low-income home energy assistance program,
6 LIHEAP, for financial assistance with energy bills,
7 weatherization projects as provided.

8 There is low-income energy efficiency program,
9 no-cost weatherization services, and as I mentioned before, a
10 level-bill options where consumers pay a level amount
11 throughout the year.

12 Those are basically the programs that we have
13 articulated and put in place for what we all think will be a
14 somewhat difficult time in the next few months concerning the
15 prices of natural gas.

16 I think we have done about all we can at this
17 point. We will certainly, if anything else comes along, we
18 will be coming back to the two Commissions to talk about it
19 some more.

20 Thank you.

21 COMMISSIONER PEEVEY: Thank you, Mr. Larson.

22 Mr. Blevins, do you have anything you wish to add?

23 MR. BLEVINS: No.

24 COMMISSIONER PEEVEY: Any questions or comments here?

25 Commissioner Grueneich.

26 COMMISSIONER GRUENEICH: Thank you very much.

27 I want to say that I think you and the staff have
28 done just a remarkable job of trying to put in place an array

1 of programs. Our Commission had held an en banc earlier this
2 year down in Los Angeles when we received an update from the
3 utilities as far as their projections on where natural gas
4 prices would be. And I am wondering if you or the staff
5 could give us any information as far as are we looking at the
6 retail cost to consumers, I think it was on the order, of
7 perhaps a 50 percent increase on average in residential
8 bills? Are we still looking at that type of an increase over
9 the winter?

10 MR. LARSON: No, not generally. The weather has been
11 more moderate than was forecast at the time. And also I
12 think though the price of natural gas achieved a new high, I
13 think it was on last Friday, of \$15 per million cubic feet,
14 still most of the three major utilities believe that the
15 prices will not be as high as originally forecasted in the
16 residential sector. I think it is reduced from 50 to about
17 30 percent, roughly.

18 COMMISSIONER GRUENEICH: Thank you.

19 COMMISSIONER PEEVEY: Commissioner Pfannenstiel.

20 VICE CHAIRPERSON PFANNENSTIEL: Steve, you mentioned
21 energy efficiency as being one of your major programs. I
22 know that you have done really enormous work with utilities
23 on their energy efficiency programs. But are those really
24 geared to the individual customer for this winter?

25 For example, if the individual customer calls
26 PG&E, for example, and says, gee, I don't know if my furnace
27 is as efficient as it should be, I don't know whether I
28 should be doing something that would be investing for the

1 longer term, are there programs now for individual customers
2 to get that kind of help right away?

3 MR. LARSON: Yes. First, in terms of the efficiency
4 program, it really is for the period 2006 to 2008, the over
5 \$2 billion program I mentioned in my comments, we have urged
6 the utilities, yes, to implement a quicker, better response
7 to when people do call up and want to either switch out for
8 new types of equipment. All the utilities have existing
9 programs for that. We have asked them to accelerate that for
10 this coming winter, if at all possible. We will be
11 monitoring that to see if they do respond more quickly.

12 VICE CHAIRPERSON PFANNENSTIEL: But they still have
13 what used to be the energy audit programs for homeowners?

14 MR. LARSON: Correct.

15 VICE CHAIRPERSON PFANNENSTIEL: Thank you.

16 COMMISSIONER PEEVEY: Any other questions or comments
17 here on this?

18 (No response)

19 COMMISSIONER PEEVEY: If not, Director Larson, thank
20 you very much.

21 We will now turn to an update on the outlook for
22 summer of 2006. We are going to have a number of speakers
23 from the Energy Commission as well as the PUC and the ISO.

24 So we will start with Dave Ashuckian.

25 STATEMENT OF MR. ASHUCKIAN

26 MR. ASHUCKIAN: Good afternoon, Commissioners. David
27 Ashuckian with the California Energy Commission.

28 I'm going to talk about our summer outlook as well

1 as our first look at 2007 and beyond.

2 What I will do today is discuss the changes that
3 we have made to our outlook since September 12th, which was
4 the last time we presented our outlook to you, as well as
5 discussing comments we received from a public workshop that
6 we held just last Thursday on our draft summer outlook report
7 which was just completed last week as well.

8 Since our last meeting we have met with the
9 California ISO staff. We met with the CPUC staff, as well as
10 various resource planners from some of the utilities, both
11 muni and IOU utilities. And we have also, as I mentioned,
12 published our draft report on the outlook.

13 Here we have our latest statewide outlook. This
14 is the statewide version.

15 As you can see from this, the resources are
16 actually pretty adequate at this level. So, actually, both
17 the statewide level and the ISO level, the control level
18 appears adequate. So I won't go into too much detail on this
19 table, but I will answer questions you may have.

20 I also want to point out in our outlooks we have
21 not considered at this point transmission outages because
22 data for that is difficult to come by at this point.

23 We are looking at adverse conditions, but
24 transmission outages are not one of those. As we experienced
25 this last summer, those can have a major impact on
26 reliability of the system. So I don't want to give a false
27 impression that just because we are saying the reserve margin
28 looks okay it means no one will have any problems.

1 Again, here is the California ISO control area.
2 As you can see again, it looks like there should be adequate
3 resources at this level.

4 As we move on into Northern California, there's
5 been a few changes since our last outlook. One of the most
6 major changes is that we used to have what the import
7 capability of north of Path 26 was and kept the flows between
8 north and south isolated to show what each individual region
9 could do. We have got a number of comments about that.

10 And because there's capabilities of a significant
11 amount of flow, 3000 megawatts of flow between north and
12 south, and the ISO has complete control over that flow, we
13 believed it may have left a false impression there were more
14 resources available in Northern California than is likely to
15 be available because of the demand in Southern California.

16 So for that reason, in this version we have
17 actually taken that 3000 megawatts off of the net import
18 capability to show what is likely to be available north of
19 Path 26, the retirements here, known retirements including
20 Hunters Point as well as the San Francisco Peaker.

21 And again, even with those changes, there seems to
22 be quite significant or adequate resources in north of Path
23 26 for the summer.

24 Moving into the south of Path 26 region. We have
25 made a number of changes. Those include adjusting our
26 counting of Mohave. In the past we were only counting the
27 portion of that we believed was essentially controlled by
28 California, about half of Mohave. We found out that in fact

1 the ISO considers the whole of Mohave because it ends up
2 getting into the control area, and they direct it back out
3 again. So essentially it is larger than we were considering.

4 But because Mohave is retiring, when we were only
5 retiring a portion of it it made it look like there were
6 extra resources. So what we have done is increased the size
7 of Mohave for the retirement. We also increased the size of
8 what was existing generation. So in fact when it retires,
9 the net effect will be zero with those changes.

10 We have also updated the outage data as a result
11 of new data we got for 2005 outages. And we also updated the
12 congestion numbers after talking with the ISO staff because
13 of the upgrades that have been done to the transmission
14 system.

15 COMMISSIONER BROWN: Before you get too far away, on
16 the issue of Mohave, is it your feeling that perhaps what we
17 just ought to do is look to -- have you build a worst case
18 scenario with Mohave being totally off line?

19 MR. ASHUCKIAN: Our scenario is Mohave totally off
20 line.

21 COMMISSIONER BROWN: Okay.

22 MR. ASHUCKIAN: And if it happens to come back, it
23 will appear as if it is a new addition to our outlook.

24 COMMISSIONER BROWN: Thank you.

25 MR. ASHUCKIAN: We have also upgraded the net
26 interchange number by about 200 megawatts. Those are from
27 the Devers-Palo Verde upgrades.

28 This is a more detailed explanation of what is

1 Line 21, the existing contracts -- existing plants that we
2 are not aware of that have contracts. So this is just
3 information about what those plants are.

4 COMMISSIONER PEEVEY: Where is Pastoria?

5 MR. ASHUCKIAN: That's a good question. I'm sorry I
6 can't answer that. I will get that information for you.

7 COMMISSIONER PEEVEY: Does anybody know here. Isn't
8 it SP 26?

9 MR. PEREZ: Yes.

10 COMMISSIONER PEEVEY: A thousand megawatts? I didn't
11 see it on the tabulation. It doesn't have a long term --

12 COMMISSIONER GRUENEICH: Maybe it got a contract.

13 MR. ASHUCKIAN: These were plants that we identified
14 during our power report as not having contracts at that time.
15 Some of these have gotten contracts, and we have dropped them
16 off. So we will take a look at that and make sure.

17 COMMISSIONER PEEVEY: Would you make a note of that
18 and get back to us, because it is a thousand megawatts.

19 MR. ASHUCKIAN: Yes.

20 Here is detail of the additions and retirements in
21 both the SP, NP and statewide as well as the muni updates as
22 well.

23 One change to this, MountainView appears to be on
24 line and operational at this point. So that one is ahead of
25 schedule.

26 COMMISSIONER PEEVEY: When do you expect Palomar to
27 come on line?

28 MR. ASHUCKIAN: I believe it is February. I don't

1 know that one off the top of my head.

2 COMMISSIONER PEEVEY: It says June here.

3 MR. ASHUCKIAN: These are plants we expect to be on
4 line by June 1st.

5 As a result of our outlook report and the
6 workshop, we did receive comments from PG&E, Southern Cal
7 Edison and the ISO staff.

8 PG&E concurred with our outlook for the north of
9 Path 26 region. They felt like they would have adequate
10 resources in that region for both the expected as well as the
11 adverse conditions.

12 They were -- they asked us to consider -- in our
13 outlook we used the IEPR's demand forecast that we just
14 developed for 2005 IEPR. And because that outlook has a low,
15 a base and a high range, we decided to use the more
16 conservative method and pick the high range. PG&E thought it
17 might be more appropriate to use the base range, the middle
18 of the road.

19 And it turns out that it is only about
20 110 megawatts difference between the base and the high case
21 for north of Path 26.

22 Actually, in the south of Path 26 it is only 75
23 megawatts.

24 So bottom line, it wouldn't be that much
25 difference if we used either one when you get down to the
26 bottom line.

27 Southern Cal Edison also noted that some of those
28 plants that we have listed as without contracts they believe

1 may have contracts, possibly through third parties who are
2 using those plants as a hedge against liquidated damages if
3 something else can't provide power.

4 So it may be difficult to actually find out which
5 ones of those plants actually do have contracts.

6 And they also asked us to look at developing a
7 five-year forecast using various scenarios of additions and
8 retirements. And they offered to help come up with zones of
9 what they thought might be appropriate considerations for
10 scenarios, for additions and retirements.]

11 The ISO said that they were, you know, working on
12 their own forecasts. And Armie here will give you
13 preliminary previews of that one they consider overall with
14 the control area forecasts, and also believe that north of
15 Path 26 and south of Path 26 would be adequate under expected
16 conditions. They were concerned that SP 26 -- and again, I
17 guess I'll go through this quickly, because you'll hear about
18 this in a moment. They're concerned about adequate resources
19 itself in Path 26 under adverse conditions.

20 And they're also concerned about the indication
21 and/or utilization of demand response and interruptible
22 programs for the difficulty it causes in actually trying to
23 manage the grid.

24 COMMISSIONER BOHN: May I ask just a question just
25 quickly? What did you all decide to do relative to Southern
26 California Edison's request to develop a five-year scenario?
27 Is that going to happen or --

28 MR. ASHUCKIAN: Yes. That was just last Thursday that

1 they asked us. And we'll be talking further about that.
2 You'll see we do have a preliminary five-year outlook that
3 we're showing you today.

4 COMMISSIONER BOHN: So the general intent is to go
5 ahead and do a five-year scenario with or without them in
6 some fashion?

7 MR. ASHUCKIAN: Yes.

8 COMMISSIONER BOHN: Thank you.

9 MR. ASHUCKIAN: So with that, I'll move on to the
10 five-year outlook. A good segue.

11 This is the statewide outlook. And what we've
12 done here is taken the 2005 IEPR forecast, and essentially
13 started with 2000 -- the expected conditions for 2006 as the
14 base case. We've used what we know for retirements, and what
15 we know for additions.

16 Right now, the additions are only Otay Mesa, and
17 there's a few in the muni region. There are are no high-risk
18 retirements. These are plants that -- they're 3,000
19 megawatts or so that don't have contracts, or we're not aware
20 of that have contracts we're assuming that are still going to
21 be operational.

22 We also are saying there's going to be no change
23 in demand response and interruptible programs as of what we
24 have already included. So as those programs change over the
25 years, that would change this outlook as well. And we're
26 using the high case 2005 IEPR outlook.

27 And, as you can see, what this shows as time goes,
28 without these additions, demand will continue to grow and the

1 reserve margin will continue to decline. It's pretty much
2 the same for the ISO control area as well.

3 And on Path 26 as well, it looks like we have -- I
4 don't know -- quite a few years before things start to get a
5 little dicey, when you look at these three regional pictures.

6 CHAIRPERSON DESMOND: Dave, just a quick question.

7 Looking at the five-year outlook, there are two
8 projects recently announced for which I believe work has
9 begun. One is the G.E. facility. That's 750 megawatts
10 high-frequency combined-cycle down in Riverside. And I also
11 believe that Edison is working on a new peaker project
12 located about 2 miles away. Are those reflected in these?

13 MR. ASHUCKIAN: No, no. Again, we look at -- once
14 plants get really, you know, much closer along to
15 expected-to-be-on-line before we start counting them.

16 CHAIRPERSON DESMOND: Okay.

17 MR. ASHUCKIAN: We've used this 75 percent probability
18 that they will be on line. That's -- you know, how we
19 actually derive that is a little bit uncertain, but -- but
20 again, this has continued to be updated. As those plans move
21 along, we will consider adding those.

22 COMMISSIONER BROWN: So Otay Mesa would not be in your
23 calculation?

24 MR. ASHUCKIAN: Otay Mesa is in our calculation.

25 COMMISSIONER BROWN: Okay.

26 COMMISSIONER GRUENEICH: Let me ask, then. The
27 numbers you're showing, for example, on page 6 -- that's the
28 ISO control region. Are the numbers that you show on page 14

1 -- SP 26, is that the ISO control area only, or are you also
2 including the munis?

3 MR. ASHUCKIAN: On page 6 is the SP 26.

4 COMMISSIONER GRUENEICH: Yes. And that's clearly
5 labeled. It's the ISO.

6 MR. ASHUCKIAN: SP 26 is the lower half of the ISO
7 control area.

8 COMMISSIONER GRUENEICH: Right. I understand.

9 MR. ASHUCKIAN: Okay.

10 COMMISSIONER GRUENEICH: My question was: on page 14,
11 when you're referring to SP 26, are you referring to the ISO
12 control area only?

13 MR. ASHUCKIAN: This is the same area.

14 COMMISSIONER PEEVEY: Same.

15 MR. ASHUCKIAN: Yeah. And that brings me to SP 26,
16 which, you know, indicates again that actually in this
17 region, it looks like things are going to get a little more
18 dicey as soon as 2007. And, in fact, it's possible that we
19 would have to recall on the net response of interruptibles to
20 avoid a Stage 3 in -- during adverse conditions in 2007,
21 assuming, again, no additions happen that we haven't
22 accounted for other than Otay Mesa, and no change in, you
23 know, the outlook assumptions.

24 CHAIRPERSON DESMOND: Dave, just a follow-up, then, on
25 the demand response. Do you forecast -- I shouldn't say "Do
26 you," but does the forecast take into account the staged
27 targets of that 5 percent by 2007? Are you assuming that it
28 is some percentage growth of what we just saw this last year?

1 MR. ASHUCKIAN: What we did for this year was take a
2 look at what actually occurred in SP 26 during the events
3 that we had, and so we essentially said: Okay. This is what
4 was -- is now dependable for SP 26.

5 Now, in fact, San Diego did not call on their
6 programs, and so we're actually counting San Diego as zero at
7 this point. What we did -- actually, San Diego's pretty
8 small, but what we're doing now is for NP 26 and San Diego,
9 we've taken the same ratio of enrolled to demonstrated, and
10 assuming the other areas are going to have the same relative
11 ratio of participation, we are not ramping that up as the
12 programs are expected to increase. We're just saying, "We
13 saw that last year. We're going to see the same next year."

14 And what you'll hear from Dave Hungerford is
15 what's happened since the summer of those programs expanding.
16 So it's likely these programs would provide, you know, more
17 resources by the time things actually happen in 2006.

18 COMMISSIONER PEEVEY: One would hope, since we
19 approved \$2 billion of expenditures over the next three
20 years, that we get something for it. At least, that's what I
21 claim in speeches.

22 Yeah, John. Commissioner Bohn.

23 COMMISSIONER BOHN: Just one question.

24 As the new person trying to sort of weave through
25 all of these projections, let me bring it back to the
26 following. When the press asks, are we comfortable that we
27 have sufficient power resources to get us through 2007, is
28 the answer to that, "Yes, we think so," or "We hope so," or

1 "We're not sure"?

2 MR. ASHUCKIAN: There's a -- well, it depends on what
3 you think is okay, is the bottom line.

4 COMMISSIONER BOHN: Where I'm going with that,
5 obviously, is simply to try to get down to the level as we
6 try to educate and try to convey what it is we are doing
7 collectively relative to what the state needs in terms of
8 power generation and the rest. We need to try to converse
9 on -- with the same language that we're using publicly as
10 opposed to internally.

11 And I guess my question is: I have been under the
12 impression that we were, if you want, seriously concerned
13 about adequacy going forward. I am reading this and saying:
14 we're not any longer seriously concerned.

15 Is that right?

16 MR. ASHUCKIAN: There is a concern that remains in
17 south of Path 26. And there are things that probably could
18 be done to help alleviate some of those concerns.

19 When you look at the state as a whole, things are
20 looking okay. When you look at the control area as a whole,
21 things are looking okay; but, because of the regional
22 differences, there's still some concern. Again, getting back
23 to under adverse conditions, at this point, things could
24 happen.

25 We're not predicting firm load being lost with
26 these programs. They appear that they will have the ability
27 to come in and keep us operational; but you'll likely hear
28 from the ISO there are issues with those as they operate the

1 system.

2 But all we can do is -- well, one of the things
3 we're working on is -- and this has been brought out through
4 the last couple of EAP meetings -- is the probability of
5 these events actually occurring.

6 What these numbers don't show -- this is a
7 determinacy approach. This is basically saying: if this
8 always happens, this is what would be the result.

9 We're looking at the data on outages, on
10 temperatures, you know, trying to collect data on
11 transmission outages to show what is the probability of these
12 events actually occurring based on the data that we have.
13 And right now, looking at just two of the probability -- you
14 know, two of the parameters -- both temperature, which
15 increases the load, as well as the outages -- the probability
16 of these adverse conditions occurring on -- those two adverse
17 occurring at the same time are fairly low.

18 So we can't say that, you know, the power's not
19 going to go off. As we saw this summer, we had adequate
20 resources on our forecast, yet people still had outages
21 because of things that weren't anticipated, because of
22 significant, you know, transmission outages; but what we can
23 do is give you a better understanding of what resources we
24 have, and what is the probability, what is the likely
25 scenario of things that are happening.

26 COMMISSIONER BOHN: Have the probabilities changed
27 between the first prognostication and this one?

28 MR. ASHUCKIAN: Yes. In fact, 2006 actually looks

1 better than 2005 did, so we are better off in 2006 than we
2 were in 2005.

3 COMMISSIONER BOHN: Thank you.

4 COMMISSIONER PEEVEY: Okay. Others? Are you done
5 with your presentation?

6 MR. ASHUCKIAN: Yes.

7 COMMISSIONER GRUENEICH: Yes. I have a couple of
8 questions.

9 With the 3,000 megawatts of import capability,
10 are you saying -- you said that it was taken off northern
11 California. Am I assuming that it was also taken off for
12 southern -- it was never included for southern California?
13 Because I remain concerned that if we have that 3,000
14 megawatts import capability -- and what I think you said was
15 that it wasn't accurate to allocate that totally to northern
16 California because a portion of it could also go to southern
17 California, but similarly, it's not accurate not to show at
18 all. And so I want to find out: how is it shown on these
19 charts?

20 MR. ASHUCKIAN: That 3,000 megawatts can flow from
21 northern California to southern California. If you looked at
22 each individual control area as if it was an island in and of
23 itself, northern California would actually have higher
24 capability; but because some of that is actually counted as
25 flowing to southern California, SP 26 is counting it as if
26 it's coming in as an import.

27 COMMISSIONER GRUENEICH: Is it counting the full 3,000
28 megawatts?

1 MR. ASHUCKIAN: We are counting it as 3,000 megawatts
2 into south of Path 26. So if there was a coincident peak
3 demand in north of Path 26 on the same day, the same hour
4 that it happened in south of Path 26, then the ISO would
5 either decide: well, we're going to either leave it in
6 northern California, or we're going to give it to southern
7 California, but right now it appears that it would probably
8 go to southern California. Because southern California's
9 reserve margins are generally lower, it would be experiencing
10 a problem sooner than northern California would.

11 So we're not eliminating it. It's still coming
12 into California. We're just showing how it's flowing between
13 north and south.

14 COMMISSIONER GRUENEICH: Okay. That addresses my
15 concern. I was worried that it wasn't being shown. It's
16 being shown for southern California.

17 My other question was: under our Energy Action
18 Plan, our two top priorities for meeting our energy needs
19 are, first, energy efficiency, including demand response, and
20 then renewables.

21 And you have the line in the charts for demand
22 response. But if I sit back and say: does this give me any
23 information about how our top priorities of energy efficiency
24 and renewables are actually meeting California's needs, it
25 doesn't. And is -- just so I can understand, is the
26 existing -- where do we see the impact of our energy
27 efficiency programs? Is that, for example, line 6?

28 MR. ASHUCKIAN: Actually, it would be line -- yeah,

1 line 6: the demand.

2 What we do is -- the efficiency programs are
3 incorporated into the demand forecasts. And so it doesn't
4 come up as a line: here's what this program got you; here's
5 what would have happened without them.

6 The demand forecasters include these expected
7 programs by what they're seeing as the future demand level
8 with these programs, and so we don't have a with programs and
9 without.

10 COMMISSIONER GRUENEICH: Okay.

11 MR. ASHUCKIAN: That number --

12 COMMISSIONER BROWN: Dave, how does -- just as a
13 general matter, how do you calculate that?

14 MR. ASHUCKIAN: That's a good question. I'm not from
15 the demand -- I'm not a demand forecaster.

16 COMMISSIONER BROWN: No, but I mean, what do you look
17 at? I mean, what are the factors that make you secure that
18 you can put this, you know -- you can incorporate a certain
19 number in your chart?

20 COMMISSIONER GEESMAN: The IEPR included the 2006,
21 2008 programs that had been funded by the CPUC, and the
22 associated savings with those programs.

23 COMMISSIONER BROWN: Well, how do we know that,
24 though? I mean --

25 COMMISSIONER GEESMAN: How do you know that the
26 savings are achieved?

27 COMMISSIONER BROWN: Yeah, that they pay off, other
28 than pay off the people that run the program.

1 COMMISSIONER GEESMAN: It's a risk in -- that's a risk
2 in the forecast.

3 COMMISSIONER GRUENEICH: Sorry. EM&V programs.

4 COMMISSIONER PEEVEY: Okay. Are there other
5 questions?

6 COMMISSIONER ROSENFELD: I think I'm -- I'm going to
7 say a word.

8 COMMISSIONER PEEVEY: Excuse me, please. Wait a
9 minute. We --

10 Go ahead, Commissioner Grueneich.

11 COMMISSIONER ROSENFELD: Um --

12 COMMISSIONER PEEVEY: No, no. She had one more
13 question.

14 COMMISSIONER ROSENFELD: I'm just trying to help out
15 Dave Ashuckian a little bit on the reliability of the energy
16 efficiency and the standards.

17 The -- the standards are soon to be adopted in
18 2005, so we know them very well. And we know the
19 constructions. And the savings that come from -- that
20 John Geesman said, for the IEPR, are based on extremely
21 well monitored and verified savings for the year 2004. So we
22 know very well that a dollar spent in the year 2004 yielded
23 so many megawatts and so many billion kilowatt-hours. And my
24 impression is that those figures are really pretty stable.

25 COMMISSIONER PEEVEY: Very good. Okay.

26 COMMISSIONER GRUENEICH: One last question, which was
27 turning to the second priority, renewables, which,
28 Commissioner Geesman, I know you can remind myself. Under

1 our State law, the utilities are to be increasing the
2 renewable component by 1 percent per year. If we look at
3 page 8 on the additions, do we have a way of knowing: are
4 those including the renewables? And if not, where are they
5 included?

6 MR. ASHUCKIAN: We do include renewables. However --

7 And this is one of the comments that we received
8 from PG&E.

9 -- because we are looking at peak summer demand on
10 the hottest day of the year, and because a lot of the
11 renewables that we're going to see coming on line are wind
12 resources, we actually discount the value of wind, the
13 capacity of wind, to 3 percent.

14 And so -- and we're also only counting those
15 plants -- plants that we know are coming in. So we're doing
16 our best to capture every megawatt of new addition that has
17 come in, but depending on what the dependable capacity is, it
18 may get small.

19 Now, one of the things that we're going to likely
20 change on this is because we have -- we are showing both the
21 planning convention -- the expected as well as the adverse
22 conditions -- we will likely increase the capacity of wind in
23 the planning convention, because -- and utilize the planning
24 convention that they use for renewables under resource
25 adequacy.

26 COMMISSIONER GRUENEICH: Okay. One thing I just want
27 to throw out to think about when we get this type of
28 information in the future is: if there is a way to

1 demonstrate what portion of energy-efficiency renewables that
2 the state is relying upon to meet its needs -- and I
3 understand that this is mostly done on a capacity basis. And
4 remind me. Under the RPS, it's done on an energy basis.

5 But again, I look back and look at the bigger
6 picture. We've said that our top priorities are energy
7 efficiency and renewables. And it might not be bad to think
8 about. Can you give a snapshot, both to us as policy makers
9 as well as to the public, on how energy efficiency and
10 renewables are fitting in?

11 COMMISSIONER PEEVEY: Secretary McPeak.

12 SECRETARY MC PEAK: Thank you, Mr. Chairman.

13 I have a technical question and, I think, a
14 substantive question. I'm seeing there are footnotes. I
15 don't find the place. Where are the footnotes?

16 Did you already ask this question?

17 Where do I find the footnotes?

18 COMMISSIONER PEEVEY: In another copy.

19 SECRETARY MC PEAK: They're the supernotes or
20 supranotes.

21 MR. ASHUCKIAN: On the tables themselves. Oh, you're
22 right. They didn't get included in this. They are part of
23 our main tables in our report. I can get those for you.

24 SECRETARY MC PEAK: I might not have to ask this
25 substantive question if I saw the footnotes, but as I'm
26 looking at the charts, statewide and also north and south of
27 Path 26, we've got a number there that you may already have
28 addressed: the 3,000-plus megawatts of capacity not under

1 contract, or generation not under capacity contracts.

2 So my question is: when you look at the
3 probability of these scenarios and conclude that 2006 looks
4 better than 2005, I gather you are assuming the availability
5 of the 3,000-plus megawatts; that that is available in the
6 system?]

7 MR. ASHUCKIAN: That's correct.

8 SECRETARY MC PEAK: Okay. That's an important aspect,
9 I think, of us understanding maybe the dynamic going forward.

10 MR. ASHUCKIAN: That is why we've actually taken those
11 plants and now put them at the very bottom and actually
12 de-highlighted them, because we think that many of these
13 plants do have contracts. We don't know about them or
14 they're confidential, and if we were to disclose that, we
15 would be violating confidentiality, but that we don't expect
16 them to be retiring between now and the end of summer.

17 SECRETARY MC PEAK: Right. Just to make sure I
18 understand the answer you gave me and the implication, it's
19 that 2006 probability looking better than 2005 assumes the
20 availability of that generation?

21 MR. ASHUCKIAN: Correct.

22 SECRETARY MC PEAK: And that means the numbers of
23 reserve margins for various scenarios in the chart above, in
24 the lines above in the chart, also assume that it is
25 available?

26 MR. ASHUCKIAN: Correct.

27 SECRETARY MC PEAK: Thank you.

28 COMMISSIONER PEEVEY: Any other questions or comments

1 on this? Mr. Geesman, Commissioner Geesman.

2 COMMISSIONER GEESMAN: Dian, the detail that you're
3 looking for is provided for the years 2009 through 2016 in
4 the Transmittal Report that we filed with you along with the
5 IEPR. We break that down by each of the IOU service
6 territories and each of the Energy Action Plan preferred
7 resources.

8 COMMISSIONER PEEVEY: In that regard, John, I'd ask
9 you this as well as Dave. We're on the cusp of adopting a
10 rather ambitious solar program, \$300 million in expenditures
11 next year and then on for ten more years through 2016, and
12 the stated purpose of reducing or providing 3,000 mega -- the
13 equivalent of 3,000 megawatts of generation. Now, I assume
14 these are not in anything that we've just been talking about?

15 MR. ASHUCKIAN: Correct.

16 COMMISSIONER PEEVEY: But looking out as far as you
17 just said, Commissioner Geesman, are they at all?

18 COMMISSIONER GEESMAN: No.

19 COMMISSIONER PEEVEY: Okay. Well, that's another
20 little thing to be considered. I'm not talking about solar
21 thermal. I'm talking about solar photovoltaic rooftop, which
22 also happens to coincide with peak.

23 MR. ASHUCKIAN: And this is where a five-year outlook
24 with some various scenarios might actually provide some
25 additional information about where some of these programs
26 could come in, make some assumptions about what those
27 programs can provide.

28 COMMISSIONER PEEVEY: And I think it's important that

1 the left hand and the right hand be in some sort of
2 communication here in terms of State policy matters.

3 Okay. The next speaker now is Armando Perez from
4 the ISO. It's nice to have you back.

5 STATEMENT OF MR. PEREZ

6 MR. PEREZ: Good afternoon. It's my pleasure to be
7 here as usual. Start with the -- okay. Technical
8 difficulties.

9 Review of summer of 2005. As you know, the
10 weather conditions in 2005 were relatively mild. However, we
11 reached an all-time peak nonetheless, but that peak was below
12 the most likely forecast.

13 Events in SP26 on July 21st resulted in the
14 declaration of an emergency. Imports at Palo Verde had to be
15 curtailed due to low voltage in the Devers area. AC cycling
16 was called upon, and generator outages were higher than
17 forecast. All of that contributed to that event. The
18 comparison of the actual 2005 system conditions to the ISO
19 forecast indicates the forecast was within an appropriate
20 temperature adjusted range.

21 For the summer 2006 outlook, in terms of
22 generation additions and retirements: SP26 dependable
23 generation additions about 2,000 megawatts, SP26 known
24 retirements 1580, for a net increase of 420. For NP26 we
25 have 420 of additions, 215 of retirements and a net increase
26 of 205. It looks to us and as was kind of amply demonstrated
27 in the CEC demonstration that the control area generation
28 additions are not keeping up with the anticipated load

1 growth.

2 The summer of 2006 control area wise: In 2005 we
3 expected 43 -- had a peak forecast of 43,809. In '06 we're
4 expecting 43,960. Remind you that this looks a little
5 different, but there were some readjustments to the control
6 area because of the MID/TID control area changes. Total of
7 control area imports were 9,000. We estimated now 8590,
8 again, because of the control area changes. So total control
9 area supply will be 52,809 in '05 versus 52,550 in '06.

10 Expected ISO control area demand for the most
11 likely condition is 46,668 in '05. We're expecting 46,332 in
12 '06, about a 2-percent growth plus also the control area
13 changes. So total reserve capacity 6141 '05, expected 6218
14 in '06 with a reserve margin of 13.2 in '05 and 13.4 in '06.
15 And I'm afraid I do not know what the asterisk means.

16 SECRETARY MC PEAK: Yes. I was about to ask you that.

17 MR. PEREZ: I knew you were going to ask me. So I'll
18 try to find out.

19 SECRETARY MC PEAK: It actually means reserve margin,
20 at least that's what it's --

21 MR. PEREZ: Probably a definition of what the reserve
22 margin is.

23 SECRETARY MC PEAK: What the reserve margin, right.

24 MR. PEREZ: Yeah. That's my expectation. For the
25 adverse condition --

26 COMMISSIONER PEEVEY: You can tell we're really on top
27 of this.

28 MR. PEREZ: For adverse condition was 50,592 in '05

1 versus 48,996 in '06. And total reserve capacity again 2217,
2 3554. Reserve margin for the control area is 4.4 percent in
3 '05, 7.3 percent in '06 when things are better.

4 Talking about the problem child, which is SP26, SB
5 generation capacity in '05 was 19,168. We're expecting
6 19,788. I'm not going to go through all of these numbers.
7 I'm sure you can read them as well as I can. The most likely
8 reserve margins are 6.6 and 8.2. For an adverse condition
9 they dropped to 0.7 in '05 and were better in '06 at 2.3 if
10 you think that's a better number than 0.7.

11 And I'm not keeping up. Thank you very much.
12 Appreciate that.

13 So what's the outlook? Preliminary assessments
14 indicates that a control area reserve margin are adequate for
15 most likely, 13.4, and adverse, 13.3, forecasted condition.
16 For SP26 for the most likely condition we have 8.2, but for
17 the adverse conditions we're down to 2.3. So we're about
18 1200 megawatts short.

19 The assessments is based upon the physically
20 installed capacity and our estimates of import capabilities.
21 Net generation additions are less than load growth. However,
22 import capability has been increasing and will continue to do
23 so. And there's a slight increase in available demand
24 response and interruptible programs are anticipated in 2006.

25 The next steps: There are difference between the
26 ISO and the CEC forecast. We will continue to work with the
27 CEC to share information, refine and compare the forecasts.
28 We'll continue to act on and evaluate the potential for

1 additional generation retirements or other changes that would
2 impact forecasts, and SP26 has little tolerance. And we will
3 update you again when we have much better numbers in March of
4 2006.

5 This is a snapshot, snapshot in December of '05.
6 I hope you realize these are all fluid numbers and they
7 change, not so much the load, but it's the generation that
8 bothers me the most.

9 Any questions on this?

10 COMMISSIONER PEEVEY: Go ahead.

11 CHAIRPERSON DESMOND: Thank you. Just a quick
12 question, Armie. How is the ISO accounting for the increase
13 in energy efficiency which is being used by the CEC to reduce
14 the demand forecast coming forward? I'm assuming that you
15 relied primarily on the econometric forecast, but that might
16 reflect historic investment levels and efficiency and we now
17 have in the short term, as President Peevey just pointed out,
18 nearly a tripling of that investment dollars. And I'm
19 wondering if that's potentially one of the areas of
20 differences here?

21 MR. PEREZ: No. The energy efficiency results in a
22 reduction of the load forecast on a bus-by-bus level that we
23 get from the utilities. The differences between us is -- and
24 it's not a difference; it's a matter of whether we ought to
25 be doing it one way or the other, and we need to figure that
26 out -- is that they assume that the peak forecast is based on
27 all interruptibles being off and all the mass response being
28 off. We feel that you should be planning your infrastructure

1 to have all the load being served and not be planning to have
2 some of the load not being served. Now, whether we're right
3 and they're right or we're wrong and they're wrong we don't
4 know. We're going to work it out.

5 CHAIRPERSON DESMOND: Thank you.

6 COMMISSIONER PEEVEY: Other questions or comments?
7 Yes.

8 SECRETARY MC PEAK: Sorry, Mr. Chairman. Still on
9 page 4, on the -- back to page 4, the control area forecast.
10 I see it is under the most likely band there where the 2006
11 is below the 2005 I see the notation of MID and TID
12 increasing there, I guess, a control area change, but really
13 it goes down overall. I mean I'm really trying to understand
14 the math there.

15 MR. PEREZ: Sure. Before you have the MID and the TID
16 load and generation included as part of our control area.
17 Now they're going to be separate control areas. So remove
18 all their load. So our load estimates went down by the
19 amount that MID load and TID load, and the generation will be
20 adjusted if there's any MID generation that's not used in
21 their control area.

22 SECRETARY MC PEAK: Okay. And overall you're assuming
23 a 2-percent growth in demand statewide.

24 MR. PEREZ: Yes.

25 SECRETARY MC PEAK: In and out of the control area.

26 MR. PEREZ: Yes.

27 SECRETARY MC PEAK: And then this reflects not only
28 that growth in demand but the change in accounting where TID

1 and MID are taken out?

2 MR. PEREZ: Yes.

3 SECRETARY MC PEAK: Okay. I'm sorry to state the
4 obvious.

5 MR. PEREZ: No, no, no. No problem. There's nothing
6 obvious around here.

7 COMMISSIONER PEEVEY: Are there other -- Commissioner
8 Grueneich.

9 COMMISSIONER GRUENEICH: Yes. I'm looking at the
10 document we just got from the Energy Commission, page 8 on
11 their additions and retirements and then your similar chart
12 from the ISO on page 3, and they don't match up. I don't
13 want to necessarily take time now going through it, but it
14 would be very helpful if there were a way that the two
15 organizations could try to get together on this, because
16 we're not the technical experts here, and maybe if there are
17 different views, you could footnote them, but it seems to me
18 fairly distressing that we've got one document that says that
19 we're going to have 40 megawatts of additions in north of Pad
20 26 and then a second document that says we're going to get
21 420 megawatts. So again, I don't know that we need to take
22 time going through it, but it would be helpful to get, you
23 know, one view to us.

24 MR. PEREZ: Yeah. It's less. It's 205 versus 40.

25 (Laughter)

26 COMMISSIONER PEEVEY: Just to throw out another
27 number. Dave, did you want to say something?

28 MR. ASHUCKIAN: I do have a quick answer in that what

1 we found is we account for what is the summer dependable
2 capacity for a plant. That is, it's already been derated for
3 what it is expected to provide during hot weather conditions.
4 What we found is the ISO takes the nameplate capacity, says
5 that's what's added, and then counts the derated amount as an
6 outage. And so that's why, when you get to the bottom line,
7 our numbers are often very close. But if you look line by
8 line, the numbers are different. And that's why we've kind
9 of pulled our hair out trying to say: Look, why isn't this
10 line the same as that line? Well, it's all accounted for.
11 It just only shows up at the bottom.

12 COMMISSIONER GRUENEICH: Yeah. I guess, again, you
13 can just step back and think of us as the poor policy people
14 who are trying to say, does this mean there's a real
15 difference between the two organizations or does this mean
16 you just have a different version of the world, and try to
17 give us sort of the Cliffs notes of what you all know down at
18 the technical level.

19 MR. ASHUCKIAN: When you look at our adverse
20 conditions without dependable -- without demand response and
21 interruptibles, we're at 2.8 reserve margin. They're at 2.3.

22 MR. PEREZ: Right.

23 MR. ASHUCKIAN: That's pretty darned close.

24 COMMISSIONER PEEVEY: Commissioner Bohn.

25 COMMISSIONER BOHN: Again, at the risk of provoking a
26 firestorm, following on what Commissioner Grueneich has said,
27 it seems to me that the answer is either A or B, and that's,
28 I guess, going to be what you said, who is it that can, and

1 then the next question is, who is that will decide this. It
2 seems just nonsensical to get ourselves all wrapped up in
3 this stuff if we've got different projections for different
4 reasons. It probably doesn't matter or maybe it does whether
5 it's A or B, but since we are collectively responsible for
6 kind of figuring out whether it's A or B and since we can't
7 decide it and nobody else seems to be deciding it, what
8 should we do?

9 SECRETARY MC PEAK: Mr. Chairman.

10 COMMISSIONER PEEVEY: Let's give him a chance.

11 SECRETARY MC PEAK: Let's do that, and then I'll tell
12 you what we did last year.

13 MR. PEREZ: I honestly think that the big source of
14 the difference is whether you are going to take into account,
15 you know, the demand response program or the interruptibles.
16 If we can get that figured out between the two of us, the
17 rest of the stuff should come with numbers that are very
18 close to each other. But that other one is a philosophical
19 issue. And you know, I think it should be my way, and I'm
20 sure that Joe Desmond -- Mr. Desmond thinks it should be his
21 way, but we just need to talk some more.

22 COMMISSIONER PEEVEY: Okay. Secretary McPeak, who has
23 had the on-the-ground experience having to deal with this for
24 the last year.

25 SECRETARY MC PEAK: Well, I was going to try to answer
26 how we did it last year and point out the value of those
27 monthly meetings and then the previous weekly check-ins and
28 reconciliation. I think for a variety of reasons we've

1 gotten off schedule in part because I also wasn't around. I
2 was on jury duty. Then I was in China. But it actually
3 can't depend on one of us being out of the country.

4 COMMISSIONER BROWN: They had you on jury duty?

5 SECRETARY MC PEAK: Oh, yeah. They get me every year
6 and they put me on the jury. I have no idea why they would
7 do that.

8 COMMISSIONER BROWN: It should have preempted you.

9 SECRETARY MC PEAK: I know. But the point being, as
10 the two chairmen will know, unless we have a process as
11 you're bringing up the question, Commissioner Bohn, about why
12 don't we have it reconciled, they have similar appro -- they
13 have similar numbers, but they're not exactly the same
14 numbers, and it usually is not A or B. It's usually C when
15 they actually sit down and start going through it. And we
16 need to have one forecast that as an administration, and
17 actually the PUC where it weighs in on this as well in terms
18 of what you're relying on with respect to the IOUs and their
19 contribution to the generation within those service areas.

20 And so we need -- we're just at this point getting
21 it to all three of us, I mean all -- I guess there isn't a
22 third, well, yeah, there is, the ISO -- all three of the
23 energy agencies in the administration. Today we're getting
24 your best effort, and now the job going forward is to get it
25 reconciled within the action plan on what do we do and what
26 are our contingencies based on the forecast scenarios.

27 MR. PEREZ: Just so I don't leave you with the
28 impression that there's a big difference. The problem that I

1 think we should do it the way the ISO is doing it is because
2 you remember this whole presentation and the CEC started with
3 the philosophy that no transmission lines were off. So you
4 have that problem in there. Then we have an estimate of what
5 generation is going to be, and you know how good we are at
6 doing that, and then we have an estimate of the load and the
7 temperatures, and August 25th we'll tell you how good we are
8 at doing that.

9 So we think that the interruptibles should be used
10 as a backup against an emergency, a little bit of a reserve
11 that the operator has. If you're going to plan the system
12 just with that number, you make the operation tighter and
13 tighter and much more easy to make a mistake.

14 COMMISSIONER PEEVEY: We understand. Did you want to
15 add something?

16 MR. ASHUCKIAN: I just wanted to add that we have
17 attempted to provide both, if you have line 17, that's the
18 without demand response interruptibles. Line 18 is with
19 those programs. So you can see what those programs can do.
20 Secondly, we've been trying to expand upon this probability
21 analysis to show you that every one of these lines is not one
22 number answer. It's a continuum of what's least likely
23 versus the most likely. And as we move along with that
24 probability analysis, I think we'll get to a better
25 understanding that each one of these things, there's a high
26 probability of what the number could be and a low
27 probability, but there isn't one number answer to any one of
28 these lines.

1 COMMISSIONER PEEVEY: I just hope that as we go
2 forward in the next several years that this increased energy
3 efficiency expenditures, the solar photovoltaic and
4 ultimately solar thermal and all will all be taken in
5 consideration here, and the utilities are signing up a lot of
6 RPS programs, vendors. We have to get things into the
7 numbers in a fashion that is -- I'm not as concerned as some.
8 You have a little different function than the CEC, and it's
9 reflected in your perspective and everything else.

10 I do have one question. It's probably most for
11 you, and that is, it's very regrettable but it's a fact of
12 that life that the largest independent power producer in
13 America headquartered in San Jose is in severe financial
14 difficulty. Are there some implications for the CalISO in
15 this, or can we feel quite comfortable that regardless of
16 whatever course they choose in the next several weeks or
17 months that we can count on that generation? Are you
18 comfortable responding to that, or do you want to remark on
19 that? If you do, it's fine.

20 MR. PEREZ: Let's just say that we've been almost
21 talking on a daily basis. We're fairly assured that the
22 steps that they're taking and the steps that we're taking
23 will result in no effect, but I can't, you know --

24 COMMISSIONER PEEVEY: Guarantee it.

25 MR. PEREZ: -- guarantee that 100 percent.]

26 COMMISSIONER PEEVEY: Joe, do you want to say anything
27 about that?

28 CHAIRPERSON DESMOND: No. Actually, I don't mind. I

1 will echo what Armie says, which is that the state is engaged
2 almost on a daily basis in speaking with utilities that would
3 be affected, the DWR contracts, the Governor's office. So
4 they are staying in close contact on those issues to make
5 sure those resources are available.

6 COMMISSIONER PEEVEY: There may be an economic cost in
7 terms of price of any kind --

8 CHAIRPERSON DESMOND: Physical reliability should be
9 unaffected by any filing.

10 COMMISSIONER PEEVEY: I just think it is important to
11 recognize that.

12 The next, we have David Hungerford --

13 MR. PEREZ: They told me to finish my presentation. I
14 got about three more slides.

15 COMMISSIONER PEEVEY: I'm sorry.

16 MR. PEREZ: Path 49 are all of what we call the short
17 term improvements on the lines between Arizona and
18 California. They all have dates of operation prior to the
19 summer of '06 with an increase in capacity across the river
20 of 505 megawatts.

21 The first is Palo Verde-Devers 500 kV Hassayampa -
22 North Gila - Imperial Valley 500 kV series capacitors
23 upgrades are on time for an expected in-service date of July
24 1.

25 The one problem has been the static VAR
26 compensator to be located at Devers. We were able in
27 discussions with Southern California Edison and the
28 manufacturer, we were able to split the capacitor part of the

1 SVC from the SVC part, so we get the capacitors in by
2 July 1st and the rest of the equipment in by September 1st.
3 That was a very good improvement.

4 The Devers transformer should be available in
5 March of '06. The west-of-Devers upgrade should all be
6 completed by July 1st of 2006 using a special protection
7 scheme for generation tripping.

8 The Imperial Valley phase shifter is estimated to
9 be in service in '07.

10 We have another special protection scheme between
11 July and December to take care of the problems.

12 The east-of-the-river pathway will increase from
13 7550 to 7700 for the summer of '06, and that will go to the
14 full 8055 by September or a total increase of 505 megawatts.

15 That completes my presentation.

16 COMMISSIONER PEEVEY: Thank you very much.

17 If there are no questions, we will now move to
18 David Hungerford to talk about demand response programs.

19 Anybody that wishes to speak from the public here
20 or any of the other IOUs or others, please sign up with the
21 public advisor outside this room.

22 Thank you.

23 STATEMENT OF MR. HUNGERFORD

24 MR. HUNGERFORD: Secretary, Commissioners, good
25 afternoon.

26 I am going to give you a brief update on where we
27 are on demand response programs for the summer of 2006.

28 Much of my support is from Bruce Kaneshiro, my

1 counterpart here at the CPUC.

2 I am going to give you a brief overview of the
3 joint demand response proceeding that was begun in 2002, the
4 2006 through 2008 demand response programs, our programs on
5 tariffs for large customers, advanced metering
6 infrastructure, and close with some estimates of demand
7 response availability for summer 2006.

8 The original joint agency demand response
9 proceeding was closed in November, having run its limit. And
10 we had three other proceedings which have been created since
11 its beginning to handle three major issues, which were
12 advanced metering infrastructure, large customer programs and
13 large customer tariffs.

14 There were some other issues that needed to be
15 resolved in the closing of this proceeding, including
16 transition funding for program operation until decisions were
17 made for the 2006 through 2008 programs, the issue of
18 realtime pricing tariffs and small customer CPP tariff
19 options, and the Judge directed that those issues be dealt
20 with in future rate design proceedings.

21 And there were a number of smaller but important
22 unresolved issues, including the details of impact
23 estimation, the M and V issues, development of standard cost
24 effectiveness methodologies. And a process was established
25 for there to be joint agency workshops this spring to deal
26 with all those issues as well as the issue of demand response
27 goals.

28 In default CPP proceeding, brief update: There

1 were two settlement proposals put out by the utilities and
2 parties in November.

3 For SDG&E and a group of parties there was a
4 proposal to create a default CPP tariff beginning with the
5 summer of 2006 with extensive customer support requirements
6 and customer notification requirements that were possible or
7 theoretically possible within the SDG&E service territory
8 because of the smaller number of customers.

9 VICE CHAIRPERSON PFANNENSTIEL: Excuse me. Would you
10 just make it very clear what size customers you are talking
11 in this proceeding?

12 MR. HUNGERFORD: Customers with greater than
13 200-kilowatt of demand.

14 VICE CHAIRPERSON PFANNENSTIEL: Thank you.

15 MR. HUNGERFORD: For PG&E and SCE and parties they
16 proposed voluntary CPP for summer of 2006 for PG&E and summer
17 beginning summer 2007 for SCE. And there is a draft Decision
18 expected to be released by the 27th of this month from Judge
19 Cooke.

20 For the large customer programs proceeding --
21 again, we are talking about customers greater than 200 kw --
22 program filings were made in June 2005, with adjustments to
23 existing programs, expansions, some modifications to try to
24 increase participation.

25 There were substantial supplementary testimony
26 filed in the late summer and early fall, particularly on cost
27 effectiveness issues. And a proposed settlement was filed
28 just a week ago on December 2nd reducing the budget for some

1 programs. And as of yet, we don't have megawatt impact
2 estimates for those reductions.

3 There were some program reductions, but a lot of
4 the budget reductions were directed at customer support
5 information elements of PG&E and SCE's proposals.

6 There will be a prehearing conference and
7 cross-examination of witnesses for the settling parties in
8 January. That date has changed since I created this slide.
9 It is going to be the following week, although a particular
10 date has not yet been decided, although it may have been
11 today. The e-mails are flying fast and furious right now.

12 The advanced metering infrastructure deployment:
13 This is for the entire system, metering the small customers
14 and medium-sized customers who do not have interval meters at
15 this point.

16 PG&E received approval for \$49 million for
17 predeployment activities. And they are going -- their Phase
18 1 is set to go into Vacaville. Hearings on full scale
19 deployment will happen in March with a decision expected in
20 July of this summer.

21 SDG&E has approval for 9.3 million in
22 predeployment expenses. It is receiving bids and will have
23 hearings in December of -- in the summer with final decision
24 in December. And SCE has received 12 million to fund an
25 effort to increase functionality of current AMI systems
26 before making a decision.

27 Now we are relating back to the earlier
28 discussions. Here is expected demand response in summer

1 2006. I used the terms "dispatchable" and "nondispatchable"
2 here. This is part of the issues that will be dealt with in
3 the workshops this spring, is the arbitrary line between
4 price sensitive demand response and trigger demand response
5 activities and existing programs like interruptibles.

6 For this definition I am following the resource
7 adequacy language to consider dispatchable programs as
8 programs and activities that can be dispatched in an
9 emergency situation at almost any time, especially the day of
10 a problem, and nondispatchable to mean programs that would be
11 triggered or notified a day ahead, such as a CPP tariff.

12 Obviously, a CPP-type tariff, even if notified a
13 day in advance, is dispatchable in a sense, but for these
14 categorizations we are thinking of these, the dispatchables,
15 as old-style interruptible or AC cycling-type programs or
16 even smart thermostat programs and the nondispatchable to be
17 behavioral demand response programs, some type of notices
18 required.

19 For summer 2006 you will notice that there are two
20 categories what we call -- two columns, subscribed megawatts
21 and expected megawatts.

22 We have had these discussions in the IEPR hearings
23 on this difference. This is also one of those accounting
24 issues that is going to be dealt with in the workshop process
25 Judge Cooke set up in closing the demand response proceeding
26 that will be held this spring.

27 The subscribed megawatts are the total possible
28 megawatts that are enrolled in a program that could possibly

1 come in at any one time. The potential of those -- that is a
2 theoretical potential that would would never expect to be
3 reached in any one incident or one event.

4 The expected megawatts are calculations based on a
5 number of things, the knowledge of the program managers, the
6 abilities of the different customers enrolled in the programs
7 to provide demand response and their willingness to do so,
8 historical impacts, of which there is a fairly short record
9 on some of these programs and a fairly long record on others
10 in the case of interruptibles. We know we can derate the
11 total enrolled capacity a certain amount based on historical
12 experience.

13 In the newer programs, those derations are a
14 little softer and we are not quite as confident, so we used
15 the lowest numbers possible. So that we can consider this
16 number in the right-hand column a reliable number.

17 So for SCE we see a total expected megawatt demand
18 response for next summer being 1103 megawatts. For SDG&E we
19 see 50. For PG&E we see 613. For a total of 1808.

20 In terms of, since I can anticipate the question,
21 in terms of how close they are to the goals, I am seeing nods
22 on the dais, in terms of the actual number of the estimated
23 annual system peak are confidential numbers, so I can given
24 you a percentage so I can come close to it in percentages.

25 For SCE, if we used the total of 1103, that
26 exceeds the 4 percent goal by more than a couple hundred
27 megawatts.

28 The SDG&E, the expected number is essentially

1 below the goal. The goal is much closer to the enrolled
2 number or subscribed number.

3 And for PG&E, the expected number is slightly
4 below the goal. I will caution that when the demand response
5 goals were set, it was not specified whether those goals were
6 meant to include existing demand response such as SCE's AC
7 cycling program or existing interruptible curtailable
8 programs.

9 And these numbers you see do include those
10 programs. So demand response goals are now, the way we are
11 looking at it right here is how close they are in these
12 percentages, is including the programs that pre-existed the
13 demand response goals.

14 One more slide. For informational purposes, this
15 is what we have on record for the municipal utilities that
16 have demand response programs.

17 You notice this reflects something of what Dave
18 Ashuckian referred to earlier, that point estimates are
19 really not a good way of representing this, some of these
20 potentials. And sometimes ranges are a better way to think
21 about this.

22 SMUD reports their demand response programs in
23 ranges. So that is what we have. That is why the totals are
24 done in ranges like this.

25 And so from SMUD we have -- you notice these are
26 tracked across the same. There is no change between the two
27 years.

28 And we have -- you can see where those other

1 programs -- SVP is Silicon Valley Power.

2 COMMISSIONER PEEVEY: Any questions?

3 Jacky Pfannenstiel.

4 VICE CHAIRPERSON PFANNENSTIEL: Two questions. First,
5 back to your prior table. I assume that that 1808 megawatts
6 was the number that Dave Ashuckian used in his forecast?

7 MR. HUNGERFORD: It is very close. There are -- I had
8 slightly newer numbers than he did because these numbers are
9 based on the monthly demand response reports from the
10 utilities. He used August numbers or months reported in
11 September, and I used numbers that were reported one month
12 later. So there is a small percentage difference.

13 VICE CHAIRPERSON PFANNENSTIEL: But they are intended
14 to be used for that purpose?

15 MR. HUNGERFORD: They are intended to be the same
16 numbers, yes. And we worked on our deration methodologies to
17 try to make them -- to try to be confident that our numbers
18 were accurate.

19 VICE CHAIRPERSON PFANNENSTIEL: That helps me
20 understand the source of the numbers he used.

21 Then another question. When you talked about the
22 conclusion of the original DR proceeding, your slide said
23 that realtime pricing tariff and small customer critical peak
24 pricing tariffs will be handled in future utility rate design
25 proceedings.

26 MR. HUNGERFORD: That's correct.

27 VICE CHAIRPERSON PFANNENSTIEL: When is that, and how
28 is that anticipated to happen? I'm just a little concerned

1 about losing that rate design opportunity even as we are
2 talking about increasing the metering capability.

3 MR. HUNGERFORD: I don't think I can answer that right
4 now. I am not intimately familiar with the general rate case
5 schedules for the utilities at the CPUC. Someone else might
6 be able to answer that more accurately. I could find it out
7 for you.

8 VICE CHAIRPERSON PFANNENSTIEL: But your understanding
9 was that each utility, then, would take the outcome of demand
10 response proceeding itself and incorporate that into their
11 next rate design and their next general rate case?

12 MR. HUNGERFORD: That's correct. That's my
13 interpretation of the direction that the ALJ gave.

14 VICE CHAIRPERSON PFANNENSTIEL: Thank you.

15 COMMISSIONER PEEVEY: Other questions or comments
16 here?

17 Mr. Desmond.

18 CHAIRPERSON DESMOND: Thank you for this update.

19 First, the energy policy report the Commission
20 adopted had a big section I thought particularly on water
21 usage. I mention water because I think the report indicated
22 nearly 20 percent of the energy used in the State of
23 California related to water movement, water treatment and
24 water end use applications.

25 Currently, there is no way of getting credit on a
26 kilowatt-hour savings on a group of water conservation
27 measures.

28 A general comment. I hope we could see at the

1 next quarterly meeting perhaps staff to begin to address how
2 the Commission, the CPUC, might be able to make a link
3 between water conservation and the kilowatt-hours associated
4 with the energy conservation that comes from that.

5 Second part of that, obviously, would relate to
6 the tariff designs that might be made available in order to
7 allow for load shifting, a greater amount of load shifting to
8 occur between the pumping. And that alone I think could add
9 several hundred megawatts. Again, the report is very, very
10 high in its range of technical potential. So I hope that
11 would be something we would consider.

12 And then lastly just a general observation in
13 terms of meeting the goals. As we think about resource
14 adequacy, Phase 3, local area reliability requirements,
15 demand response is inherently a capacity product.

16 And as a result, in order to satisfy the capacity
17 requirements that the CPUC has put upon ESPs and IOUs today,
18 I think that a capacity payment helps to at least create the
19 conditions under which business model can emerge for
20 sustained demand response.

21 I want to make sure we don't lose sight of demand
22 response and loading order in design of the resource adequacy
23 requirements because I think the two can actually work and
24 reinforce one another.

25 COMMISSIONER PEEVEY: Thank you.

26 Commissioner Bohn.

27 COMMISSIONER BOHN: Just a quick question, as the new
28 guy.

1 Are these numbers really useful for planning? I
2 notice you get very precise in the top IOU, your 1103. Get
3 down to the bottom, you go from 65 to 251, and that seems to
4 be kind of okay in terms of the process.

5 Relative to planning to solve the problems that we
6 are confronted with, is 400 percent kind of okay in this
7 business? If 1103 is better than 1100 or 1107 or whatever
8 turns out to be, are these comparable planning numbers, 65 to
9 251. You kind of just pick an average?

10 MR. HUNGERFORD: For the SMUD -- the IOU -- comparing
11 the two slides, in the IOU numbers, those point estimates in
12 the expected megawatts column are consistent with the number
13 on the left of this range and in the municipal utility
14 report.

15 SMUD didn't provide any best estimate numbers.
16 They just provided a range in their filing.

17 COMMISSIONER BOHN: So that's okay? We don't care
18 about that? Maybe we can't get it, which is okay, too. I am
19 just trying to sort out how you used these things comparably
20 in terms of total demand.

21 COMMISSIONER PEEVEY: Mr. Boyd, you want to comment?

22 COMMISSIONER BOYD: We do care, but we can't get it.

23 COMMISSIONER PEEVEY: Obviously, SMUD submitted these
24 numbers, and you could pick a mid point if you wanted to.
25 They are not in the Cal ISO controlled area, and there are
26 all kinds of other things that reduce the significance, I
27 suppose. But to me the most damning thing here -- and even
28 if the number was doubled or tripled, it wouldn't make a hell

1 of a lot of difference -- DWP, 30 megawatts, Edison
2 1100 megawatts, that is a pretty searing indictment of the
3 inability of that large a municipal in the United States to
4 grapple with what needs to be done here as state policy, and
5 again, is a clarion call for more responsiveness in terms of
6 overall state energy policy, it seems to me.

7 That is just a comment. You don't have to comment
8 on my comment.

9 MR. HUNGERFORD: Thank you.

10 COMMISSIONER PEEVEY: Mr. Geesman will as the defender
11 of DWP.

12 COMMISSIONER GEESMAN: Which is an unfamiliar role for
13 me.

14 I will say, as you well know, their explanation
15 would be that they have planned their system to provide
16 greater reserve margins than the IOUs do and that they don't
17 have to rely on these programs to the degree that Southern
18 California Edison does.

19 COMMISSIONER PEEVEY: So be it.

20 Any other comments?

21 Commissioner Grueneich.

22 COMMISSIONER GRUENEICH: I just wanted to comment
23 briefly on what Chairman Desmond mentioned about looking at
24 the role that water, efforts with regard to water resources
25 can play, that I think that that is in fact a very important
26 role and that we here at the Commission are going to be
27 adopting a water action plan tomorrow that is picking up a
28 bit of what can be done. But we only regulate in a very

1 small minority.

2 But my memory is that last week the draft climate
3 action plan was released to the public, and it calls upon the
4 resources agency to be heading up basically a statewide
5 effort to be looking at what can be done in terms of
6 increasing efficiency and making better use of our water --
7 of the facilities used to supply water so that there is less
8 demand on the energy system.

9 So I think that Chairman Desmond's point was very
10 well taken. And you might coordinate with the Resources
11 Agency who I think has been tasked to specifically look at
12 this area.

13 COMMISSIONER PEEVEY: Secretary McPeak.

14 SECRETARY MC PEAK: Thank you, Mr. Chairman.

15 I also note that my colleague, Secretary Chrisman,
16 has now joined us, so we are going to need to make room for
17 Mike up here. He has actually been to Sacramento and back
18 trying to make this meeting. So I am very grateful for all
19 his efforts.

20 COMMISSIONER PEEVEY: He has expressed an interest in
21 sitting in the back of the room rather than here.

22 SECRETARY MC PEAK: He wants to be disassociated with
23 the rest of us. We won't allow that, though.

24 On this chart, when I ask a question about this
25 chart and another question, this is the chart that is up on
26 the screen, the muni chart that is up on the screen, am I to
27 understand there are only three municipal utilities who
28 responded? We don't have MID and TID in these numbers? And

1 did we ask them all? Or what happens here?

2 MR. HUNGERFORD: I went through all of the utility
3 reports, municipal utility reports, to pull these numbers,
4 and none of the other municipal utilities reported having any
5 demand response programs in a line item for that program.
6 But I didn't do any further research to contact the utilities
7 to see if indeed they just misreported.

8 SECRETARY MC PEAK: CMUA at one point, Jerry Jordan,
9 gave us a full packet, and I thought that there was more
10 activity that they were recording than was shown here. So
11 maybe we could just ask CMUA to also survey their own
12 members, because we do have many of the munis in very, very
13 hot areas. So we have got potential for more spikes and so
14 we need to have their assistance. There's only three showing
15 here, though.

16 MR. HUNGERFORD: That's correct.

17 SECRETARY MC PEAK: Okay.

18 MR. HUNGERFORD: That is based on their reports to our
19 supply office.

20 SECRETARY MC PEAK: Then on the overall report, that
21 you presented, the timetable that you have for the advanced
22 metering and dynamic pricing, which there is a lot of
23 predeployment resources being committed by the IOUs, my
24 question is do I understand that this means that still in
25 2006 that for all new construction dumb meters are going to
26 be installed?

27 MR. HUNGERFORD: I can't answer for PG&E, but that is
28 true for SDG&E and SCE, obviously.

1 COMMISSIONER PEEVEY: Mr. Rosenfeld.

2 COMMISSIONER ROSENFELD: The only thing that we have
3 seriously underway is for more construction 2008. Ahead of
4 that we have left it up to the utilities themselves who are
5 still contracting for the meters.

6 COMMISSIONER PEEVEY: Any other questions or comments?

7 (No response)

8 COMMISSIONER PEEVEY: If not, we will move to resource
9 adequacy.

10 John Gallagher from the PUC.

11 You have altered your appearance a bit,
12 Mr. Gallagher.

13 MR. GALLAGHER: Lost some weight last week.

14 STATEMENT OF MR. GALLAGHER

15 MR. GALLAGHER: Good afternoon, Commissioners,
16 Secretary. I am going to give an update on resource adequacy
17 and procurement.

18 There are three big procurement and resource
19 adequacy related tasks for the Commission on its plate for
20 2006. I will introduce them on this slide and talk a little
21 more in the next couple slides.

22 The first is the 2006 procurement proceeding where
23 we will attempt to tackle, among other things, the issue of
24 ensuring that new generation does occur on a timely basis.

25 One of the things we are considering is whether to
26 adopt a cost allocation mechanism like the one that Edison
27 proposed a few months back.

28 The second set of issues is the adoption of a

1 local capacity requirement as a follow-up to our resource
2 adequacy proceeding, and in addition, remaining resource
3 adequacy issues. Among those issues will likely be the
4 consideration of a multi-year resource adequacy requirement.

5 Our plan here is to issue a new rulemaking in part
6 because we are reaching the statutory closing date of the
7 existing procurement rulemaking. So I should say actually
8 two new rulemakings, one for procurement, one for resource
9 adequacy next generation issues. And the new rulemaking in
10 procurement, I will get to that, will be early next year.
11 Rulemaking on resource adequacy we expect to have out this
12 week. I believe there is an item on this week's agenda.

13 The third set of issues is the capacity markets
14 issue. I should say that while I would very much like to
15 push the consideration of whether to adopt a capacity market
16 in California forward on a parallel track with the local
17 capacity requirement issue and the procurement issues, we are
18 not certain we are able to do all three of those things at
19 the same time.

20 We are still considering it. We have no final
21 decision yet, but the likelihood is that we are going to
22 stage the consideration of capacity markets until after we
23 adopt the local capacity requirement in the new resource
24 adequacy case around the middle of next year.

25 And we are interested in whether you or others
26 think we should be setting our priorities differently in this
27 regard.

28 So 2006 procurement proceeding, under President

1 Peevey's guidance, we have been attempting to tie the CEC's
2 integrated energy policy report proceeding and the PUC
3 procurement proceeding closer together. We are going to use
4 the outcome of the (inaudible) process (inaudible) in the
5 2006 procurement case.

6 I think Chairman Desmond mentioned a little while
7 ago, the CEC adopted its transmittal report of a few weeks
8 ago. President Peevey issued a ruling a week ago Friday now
9 that kicks off the 2006 procurement case, sets up a process
10 to do a fair amount of work before the procurement plans are
11 actually filed by the utilities.]

12 For instance, we are holding a workshop on
13 Wednesday of this week. We've put out quite a bit of
14 information to the parties. And what we're trying to do here
15 is to -- to do some work before the plans are filed, so that
16 the plans that aren't filed are, in fact, more robust and
17 more useful to us than they were on the 2004 go-around. The
18 OIR itself, through rulemaking for procurement, we expect to
19 have out by late January/early February.

20 And, as proposed by the ruling that
21 President Peevey put out on December 2nd, the first stage of
22 the procurement proceeding considers new investment in new
23 generation, includes the potential adoption of a mechanism to
24 allocate the cost of such investment across LOCs.

25 We've also indicated in the ruling that
26 President Peevey put out that we'll likely make ESPs
27 respondents to this year's procurement proceeding. And we'll
28 be considering asking ESPs to file long-term procurement

1 plans, so that we get a picture across the whole system.

2 Finally, one new element in this year's
3 procurement effort is to better coordinate the work of the
4 Energy Commission, the ISO, and the PUC on transmission
5 planning, and to incorporate specific transmission plans into
6 the long-term procurement filings, and to begin to move
7 toward better integrated resource planning that asks parties
8 or entities in particular to present long-term plans that
9 consider trade-offs and linkages between investment in new
10 generation and new transmission.

11 We're holding a workshop on Wednesday afternoon on
12 this week on the transmission issues. Wednesday morning is
13 procurement issues. Wednesday afternoon is transmission
14 issues.

15 Turning now to resource adequacy itself, our
16 October decision resolved most of the issues necessary for
17 load serving entities to make their compliance filings, which
18 are due January 27th.

19 Just to back up a bit, the requirement is that by
20 January 27th, load serving entities demonstrate that they
21 have 90 percent of their reserve requirement under -- either
22 owned or under contract for next summer. That reserve
23 requirement is their peak load, plus a 15 percent reserve
24 margin. So 10 percent of that 15 percent has to be in place
25 as of January 27th. They have to make a compliance filing to
26 us demonstrating that that's in place.

27 In order to work through some of the details of
28 the compliance filing, in an attempt to get some consistency

1 in the compliance filings, we held a workshop last Friday.
2 It was attended by all the major load serving entities. And
3 the intent was, again, to address the implementation details
4 and try and get everyone on the same page for the compliance
5 filings.

6 Our staff put out a template. We worked closely
7 with the ISO doing this. We put out a template for the
8 compliance filings to be made. There was, as I understand
9 it, a pretty significant degree of consensus. We've got
10 additional work. We'll be putting another version of the
11 template -- I think the target is the end of this week.

12 I should mention that some parties in the
13 proceeding were less than wholly satisfied with the
14 Commission's decision on resource adequacy, particularly
15 decisions to defer imposition of local capacity market
16 circles the local capacity requirement; but in the end, we
17 simply didn't have a sufficient record to adopt the local
18 capacity requirement for 2006. We do intend to have the
19 requirement in place for 2007.

20 Redesign is scheduled to be implemented.

21 You are are probably aware also that there were
22 parties less than satisfied with the way that we treated the
23 phase-out of firm LD energy contracts for contracting
24 purposes.

25 The final decision was somewhat looser on this
26 point than was the proposed decision, but as a practical
27 matter, the difference in the quantity of nonphysical
28 contracts that will count towards RA under the adopted

1 decision versus what was in the proposed decision are rather
2 small.

3 And another couple of recent developments on
4 resource adequacy that I should mention here on the slide is
5 -- one of them is the passage of A.B. 380, which clarifies
6 the PUC's authority over ESPs for resource adequacy purposes,
7 and directs us to work with the ISO to establish resource
8 adequacy requirements for all load serving entities. So
9 we'll be doing that in the coming year as well.

10 A.B. 380 also has language in it requiring that
11 each load serving entity maintain to meet its load
12 requirements. And that language -- we have, of course,
13 exactly what it means. It certainly seems relevant to the
14 question of whether an energy-only resource adequacy
15 requirement, as some people have advocated, is still
16 something on the table. We'll be taking a closer look at
17 that.

18 I should note that A.B. was signed by the
19 Governor. That provides the assurance of cost recovery for
20 contracts that are entered into between repowered generation
21 units and load serving entities under cost of service rubric.
22 So we will be looking forward to whether we receive any such
23 contracts.

24 And now, turning to capacity markets, the PUC
25 staff Web paper was issued in August. We received comments
26 on the Web paper in October. The comments ranged from strong
27 support to strong opposition. That was slightly surprising
28 to us.

1 One item of note was that the ISO suggested
2 considering multiple alternatives, including taking a look at
3 an energy-only resource adequacy requirement with some
4 protection built in. We were somewhat surprised to see that
5 most of the ESPs opposed the idea of going to capacity
6 markets.

7 One of the reasons that surprised us was because
8 one of the reasons that we had promoted or suggested the idea
9 of going towards capacity markets was that we thought it
10 would make it easier for smaller load serving entities like
11 ESPs to comply with the resource adequacy requirements.
12 Nonetheless, most of the ESPs were against the idea.

13 Finally, as I note on the slide, several
14 commenters told us that our priority ought to be ensuring
15 investment in new generation takes place promptly, rather
16 than on staged capacity markets. So that's part of, frankly,
17 the reason that we're proposing to stage the things, which we
18 are with investment -- with the mechanism for investment
19 occurring as the number-one issue of the procurement
20 proceeding, and with capacity markets likely to be taken up
21 after the middle of next year.

22 This is the same slide I put up in the June 2005
23 meeting. And I have it here again. I have it updated to
24 include some recent information, such as the SDG&E sunrise
25 transmission proposal. I included it here as a reminder
26 under the loading order investment in conventional
27 generation. It's necessary, but only one of the strategies
28 worth pursuing to meet the state's growing energy needs.

1 Principally, the number-one priority, of course,
2 is energy efficiency. Number two is demand response, as
3 we've heard already today. And we have some very aggressive
4 targets, particularly on the energy-efficiency side.

5 I don't know if you can see it from where you're
6 sitting, but on the top line over at the right, we're looking
7 at 400 megawatts of new energy efficiency for the period of
8 2006 through 2013. Our staff is now into the evaluation --
9 measurement and evaluation part of energy efficiency. And
10 that's the set of rules and protocols that we need to set up
11 to ensure that those targets are actually -- actually arrive.

12 So conclusions. The 2006 procurement case will
13 address the mechanism to ensure new generation. That's going
14 to be number one on the list in that proceeding. The working
15 assumption continues to be that long-term contracts will be
16 necessary for new generation. And we need to facilitate
17 those contracts.

18 On resource adequacy, major implementation issues
19 were decided in the October decision. The local capacity
20 requirement will be adopted by the middle of next year for
21 implementation in 2007. And we're still digesting comments
22 on the December markets paper, but we expect at this point,
23 anyway, to take that up after the local capacity requirements
24 are adopted.

25 Thank you.

26 COMMISSIONER PEEVEY: Thank you very much,
27 Mr. Gallagher.

28 Any questions or comments on this?

1 Secretary McPeak.

2 SECRETARY MC PEAK: I want to be reminded on the
3 resource adequacy: what is the requirement on reserves, and
4 how are those reserves calculated?

5 MR. GALLAGHER: The requirement is that each load
6 serving entity -- that includes IOUs, ESPs, and CCAs, when we
7 get them -- are required to meet 100 percent of their summer
8 peak demand, plus a 15 percent reserve margin.

9 And on a -- what we call "a year-ahead basis,"
10 they have to show us that they've got 90 percent of that
11 summer reserve margin locked up or in place.

12 Now, the first year-ahead showing is actually
13 going to be January 2006 for the summer of 2006, because of
14 the way the timing worked out. And then the second part of
15 that requirement is that on a month-ahead basis, the load
16 serving entities are required to demonstrate that they've got
17 100 percent of their peak load, plus 15 percent reserve
18 margin in place.

19 SECRETARY MC PEAK: Okay. A follow-up comment. Thank
20 you very much for that explanation and a reminder. We had
21 thought that that resource adequacy requirement would still
22 be driving private investment or start driving additional
23 investment, because that would require additional
24 contracting, therefore, greater stability, you conclude, on
25 the long term. The importance of long-term contracts in
26 order to -- to support a market and a market for investment
27 in California.

28 Do you want to comment on what signs you're seeing

1 that, in fact, that theoretical working approach is still
2 viable?

3 MR. GALLAGHER: Sure. What I have said in the past is
4 that I see sort of two prongs towards ensuring investment in
5 new capacity. One is the resource adequacy requirement,
6 which is simply a year-ahead showing at this time. And we
7 will take up the idea of a multiyear showing as we go
8 forward, but right now it's a year-ahead showing. That's one
9 piece of it.

10 The second piece of it is the long-term
11 procurement plan filing. The utilities are -- only the
12 utilities at this point is required to come in and file with
13 us plans that show how they're going to make up their needs
14 over the next ten-year period.

15 SECRETARY MC PEAK: Ten-year being long term?

16 MR. GALLAGHER: That's right. Now the 2004
17 procurement filings were not extremely robust, so, for
18 example, an LSE expected a need for new generation in Year X,
19 their plan said that a generation plant appeared in Year X.

20 One of the points of doing some up-front work
21 before the plans are filed this year is to make those filings
22 more robust, so if they need -- if their plans are going to
23 show a need for generation in Year X, they're going to show
24 us in some manner what they're going to do to get that
25 generation in Year X.

26 And so I do think that the framework we've
27 established -- you know, we're on the right track, but at
28 this point, I have to confess that it's not showing the

1 results we would have hoped would have been shown. At this
2 point, we have not seen completed RFOs for new generation
3 yet. Edison's was withdrawn.

4 PG&E does have one out for new generation that --
5 they have told us they expect to bring us contracts by
6 January. And so that's, I think, a success story, or it's
7 potentially a success story.

8 But really the third leg of it that we don't have
9 yet is to -- we've said that we expect new generation to be
10 supported by long-term contracts at this point. We expect
11 resource adequacy and procurement to drive the need for
12 long-term contracts, but so far we haven't seen that we've
13 done enough to facilitate or to ensure the new long-term
14 contracts are coming into effect. And that's why we're going
15 to take up the cost allocation mechanism or alternatives to
16 it in the procurement proceeding.

17 So far what we've heard from the utilities is that
18 they can build or they can satisfy the resource adequacy
19 needs from existing generation for the short term, although
20 everyone acknowledges that the system as a whole,
21 particularly in the south, is short.

22 So, one way or another, we've got to make sure
23 that the system needs are met. And we're going to take that
24 up in the first round of the 2006 procurement proceeding.

25 SECRETARY MC PEAK: Can I ask one follow-up question,
26 Mr. Chairman, on the reserve capacity, the 15 percent of the
27 peak on a year-ahead basis, and then going to a month-ahead
28 basis? In the October ruling, was there any further

1 definition of how much of that 15 percent could be in demand
2 response?

3 MR. GALLAGHER: Dispatchable demand response counts,
4 so things like the interruptible programs, things like the
5 A.C. cycling programs -- they can count.

6 SECRETARY MC PEAK: And no limitation on how -- what
7 portion of the 15 percent can be in dispatchable demand
8 response?

9 MR. GALLAGHER: I don't believe there's a megawatt
10 limit. I think there is a -- there is an accounting limit,
11 and I can't recall the details of it right now, but we can
12 get you that information.

13 SECRETARY MC PEAK: Okay.

14 COMMISSIONER PEEVEY: Other questions or comments?

15 Commissioner Grueneich.

16 COMMISSIONER GRUENEICH: Yes. Looking at your chart
17 on the EAP implementation, there's an item called
18 "distributed generation." Does that include combined heat
19 and power? Because I believe we added it in EAP II as an
20 area that we want to focus in on. And I know that the Energy
21 Commission, in their new IEPR, has already made a
22 recommendation that there be concerted effort by the State to
23 bring on line to meet combined heat and power.

24 Maybe that -- this is new enough that it hasn't
25 been brought into the charts. So if it's not there, I'd like
26 to suggest in the future we really start to think about how
27 we're tracking our efforts in combined heat and power.

28 MR. GALLAGHER: Right. This chart, as I said, is the

1 same slide I showed in June, so I did not get around to
2 getting it updated. That's something that we will put in
3 future versions of this chart.

4 COMMISSIONER PEEVEY: Very good.

5 Any other questions or comments?

6 If not, we'll now move to a review of the
7 PIER program -- the Energy Commission's PIER programs.

8 Martha Krebs, nice to have you here.

9 Thank you, Mr. Gallagher.

10 MR. GALLAGHER: Thank you.

11 MS. KREBS: Mr. President, Mr. Chairman, members of
12 the Commission, it's --

13 COMMISSIONER PEEVEY: Press the button (indicating).

14 MS. KREBS: Okay.

15 It's a pleasure to be here this afternoon, and to
16 provide you with some information about the PIER program.

17 In my presentation this afternoon, there are two
18 parts: a very brief illustration of energy policy and how it
19 affects PIER, and how PIER undertakes supporting research on
20 behalf of California; and the second part is an explicit
21 illustration of some of the results that we've had that are
22 relevant to the EAP action items for R & D.

23 This is simply to compare and contrast the
24 integrated energy policy report, which has been driving a lot
25 of both the Energy Commission members and staff activity over
26 the last year, and the Energy Action Plan II. And
27 essentially, they're very comparable.

28 The Energy Action Plan calls out RD&D. And that's

1 what's going to drive most of my presentation today, but the
2 energy policy report comments on and recommends activity in
3 R & D throughout.

4 The public interest energy research program was
5 established in 1997 as part of the electricity restructuring.
6 And it was intended at that time to provide benefits to
7 electricity ratepayers.

8 On an annual basis, \$62.5 million is used for
9 research provided by a surcharge on IOU ratepayers. And we
10 have approximately 3- to 400 active projects at any given
11 time.

12 In 2005, I believe -- actually, in 2004 the PUC
13 passed a rule that began a program in natural gas research
14 administered by the CEC. And that's expected to grow to
15 \$24 million by 2009.

16 My next slide is basically an illustration of
17 how I like to think about the programmatic structure of the
18 PIER program. That is essentially established by statute and
19 CEC policy guidance.

20 The three initial pillars -- I think, crucial
21 pillars of the PIER program -- are what were originally
22 expressed in the loading order efficiency renewables and
23 clean fossil or advanced generation. The underpinnings
24 especially for renewables and advanced generation were that
25 PIER would focus on distributed generation, as opposed to
26 large-scale generation. And so the research programs that we
27 look at are within that context. And we also examine the
28 systems issues associated with distributed generation.

1 The requirements for demand response, especially
2 in -- and the technological issues that demand response
3 represented came to us very strongly after the crisis in
4 2000, 2001, along with strong direction on infrastructure,
5 especially with respect to transmission, to a lesser extent
6 distribution, but that will -- we expect to see more
7 development on that side.

8 And with -- throughout the existence of PIER, the
9 requirement for understanding and mitigating the environment
10 health and safety impact of energy demand and use were --
11 energy demand and production were built into the
12 PIER program.

13 Just for your information, I thought it might be
14 useful to understand how the PIER program is administered by
15 the Energy Commission. We have a somewhat different process
16 for natural gas than electricity. And that's represented on
17 this slide.

18 The R & D policy committee of the Commission
19 has -- does an annual budget plan review, and a midyear
20 review. The project -- it also has responsibility for review
21 and approval of each project during the year. When that --
22 when those projects are embodied in contracts, those
23 contracts go before the full CEC for review and approval.
24 And over the lifetime of its -- of the PIER program, we've
25 had responsibility for preparing five-year plans. A plan is
26 due March 15th of this year for the reauthorization of the
27 program by the Legislature.

28 In the case of natural gas, the CEC R & D

1 committee submits to the PUC an annual budget plan for your
2 approval. And the 2006 plan, I understand, is on your agenda
3 soon.

4 Upon receiving that approval, the approval of
5 individual projects and contracts is done comparable to the
6 electricity side of things.

7 We have proposed to you that we submit a five-year
8 plan as well. And that will be coming forward in the coming
9 year on a similar -- similar schedule to the five-year
10 reauthorization plan.

11 A new element that was -- I mean, I'll discuss a
12 bit more later -- is a requirement for a joint strategic plan
13 for transportation that is done jointly with the ARB. And it
14 will be submitted for your approval as well.

15 This slide shows the budgets for both the
16 electricity -- the '05/'06 electricity program as well as the
17 calendar year '05 and the proposed calendar year '06 natural
18 gas plans. The -- they run on different years, as you know,
19 and so this can't be quite completely comparable.

20 I highlighted the areas. I'd be happy to talk
21 about any of these areas, but I highlighted the new program
22 that's in transportation. It appears the '06 natural gas
23 proposed plan there is in the '05/'06. As of May 2005, prior
24 to passage of the legislation, there was nothing in the
25 electricity program for transportation.

26 The program support line is a combination. Let me
27 go to the bottom line first, because this -- the total for
28 the electric program in '05/'06 is indicated at

1 \$77.5 million. That includes \$10 million of repayment of a
2 prior-year loan, which was made to the Legislature a few
3 years ago, and which has come back to us.

4 The program -- the fund that the research for PIER
5 collect -- the electricity program collected in is also used
6 to support the PIER staff. And that's what's represented --
7 and to provide technical support to the PIER R & D program.
8 And that's what's represented in the program support line.

9 The reserve that is represented in the last line
10 was a decision made by the R & D committee. That will be
11 revisited in the midyear review to consider opportunities
12 that we're going -- that we're expecting to be identified in
13 the integrated energy policy report. They include
14 transportation, energy, and water, the energy and water
15 nexus, storage that would be important in a number of --
16 storage technologies that would be important in a number of
17 areas, combined heat and power, plus the possibility of
18 additional renewables technology; but this is to be
19 considered by the R & D committee in the next -- by the end
20 of January.

21 The next item that I have here is simply to remind
22 the Commissioners that the issue of what constitutes
23 public-interest research has been very important in the
24 development of the PIER program, and has been revisited in
25 the recent five-year planning activity that is under way.

26 I am not going to read this to you, but it's not
27 only important from the perspective of the five-year
28 electricity plan, but also because of the newness of the

1 natural gas program and the addition of transportation to the
2 mandate of PIER.

3 And what is simply on the left side of -- in the
4 blue boxes of this -- of this slide is a sort of statement of
5 what was in the Warren-Alquist Act, or the amendment to the
6 Warren-Alquist Act that created the PIER program. And so we
7 have created these as tests which a project or any project
8 that comes before PIER needs to be able to meet.

9 The -- this slide simply is an illustration of
10 how, within the PIER program, energy policy drives the
11 execution of the PIER program from planning through project
12 management and execution, to a program and project review for
13 results when the projects are done.

14 I think the important thing that I'd like you to
15 carry away from this slide is that energy policy is something
16 that drives energy R & D, either from the -- either from the
17 perspective of meeting policy or anticipating the
18 opportunities for policy or, at the end of the project, the
19 project or program execution, the possibility of revising
20 policy.

21 Another -- another element that is worth stating
22 here is that, in all of the steps from planning through
23 management and execution as well as review, we carried this
24 activity out with partnerships always in mind, whether it is
25 taking into account DOE programs that are already in place,
26 utility requirements that are -- for things like emerging
27 technology where they become a partner for us or with the
28 private sector, particularly if we're moving tools or

1 products into the market for people to purchase. Then we
2 build these partnerships into our planning into the actual
3 execution of the -- of projects, and into review.]

4 The next section of --

5 COMMISSIONER PEEVEY: Let me interrupt you just for a
6 moment just to say the following: Procedurally, I mean
7 we're -- you've got a tremendous amount of information here.
8 And these next action items through 13 I could see where we
9 could easily spend a very long period of time, but we
10 unfortunately don't have that time.

11 MS. KREBS: And what would you --

12 COMMISSIONER PEEVEY: I'd like you to pick up the pace
13 considerably if you possibly can.

14 MS. KREBS: What I would do is pick a few of these
15 next slides.

16 COMMISSIONER PEEVEY: That would be fine.

17 MS. KREBS: If any one has suggestions?

18 CHAIRPERSON DESMOND: My suggestion, Martha, is
19 actually I think you can very quickly go 1, 2, 3 right
20 through 8. I think we'd get a little bit of the stuff.
21 They'd get a good sense. I think all we're trying to
22 communicate here is how the work is related to the policy
23 issues.

24 MS. KREBS: Right. Yes.

25 CHAIRPERSON DESMOND: So very quickly.

26 MS. KREBS: Okay. So I don't have to go through this.
27 You know that better than I do. You're interested in energy
28 efficiency technologies being transformed to tools and

1 standards. I would direct you first to the -- you know -- to
2 the second -- to the second item here. We have a huge
3 program, which Commissioner Rosenfeld could answer questions
4 to better than I, about support that we've given to Title 24
5 standards both, and that even for the 2008 standards we
6 already have a program underway, that it pretty well will
7 bring new technologies into the marketplace.

8 With respect to demand response, what's worth
9 noting here, let me just say, in Item 1, this is part, both
10 of these examples are part of a \$15 million investment over
11 the last couple of years in demand response that utilizes the
12 capabilities of the private sector as well as our national
13 labs. They're in partnership with the Department of Energy's
14 demand response programs. And in the case of the first
15 example, not only have we engaged 23 commercial sites in
16 automated demand response technology, PG&E is interested in a
17 large-scale demonstration.

18 With respect to new technologies for renewables
19 and greenhouse mitigation, I simply wanted to represent
20 predominantly renewables here and to indicate, probably the
21 next thing I ought to say is that particularly the wind
22 program that we have underway is a strong partnership with
23 the National Renewable Energy Laboratory as well as with
24 CalISO. This is simply a update, if you will, because we've
25 just made our initial investments in natural gas. The last
26 bullet tells you what kinds of things we're investing in. I
27 think that they are relevant to the activities that I've read
28 about in the EAP.

1 With respect to the next item on petroleum-fueled
2 vehicles, this is a -- rather lengthy and so I won't go into
3 it; I'll answer questions on it -- description of some of
4 what we're doing to get ready for the -- to meet the mandate
5 of the legislature on transportation and the natural gas
6 program. And I indicate that the R&D Committee will be
7 looking at what they want to spend the electricity funds on
8 transportation.

9 In terms of clean coal technology R&D and CO2
10 sequestration, CEC is the leader of a 20 some million dollar
11 program, 18 million of which comes from DOE and its
12 partnership of multistates across the Pacific Northwest and
13 Southwest as well. And we've had -- the second bullet simply
14 indicates that we've had feedback from one of our earlier
15 funded programs on oxy-fueled
16 technology into the Westcarb program.

17 The next item simply says that we've had activity
18 on dry cooling that is paying off now, and we released a
19 request for proposals on once-through cooling at the end of
20 November and -- that the request for proposals was released
21 with the proposals due at the end of November. So we'll be
22 in the process of evaluating them soon.

23 The transmission program that we've established
24 within the last two to three years actually has the attention
25 of -- strong attention of Commissioner Geesman. He's the
26 chairman of the Technology Research Program Program Advisory
27 Committee, which includes representation from the IOUs, the
28 Department of Energy. It's a strong collaboration with the

1 DOE. And in fact, I'd say that we are driving the DOE
2 program as much as they are complementing ours.

3 With respect to the biomass collaborative, it's
4 involved with the Interagency Working Group, and it responds
5 very strongly to the direction of Commissioner Boyd, who is
6 our leader on that.

7 And then finally I put in the activities of the
8 California Climate Change Center, which is supported by PIER,
9 and for those of you who may have gone on the web site of the
10 Climate Change Action Team report that last weekend, you may
11 note that something like 19 or so reports were either
12 authored by the members of the Climate Change Center or were
13 co-authored by members from that center, and it was done
14 almost on a moment's notice. So it's a real tribute to the
15 quality as well as the responsiveness of this investment.

16 COMMISSIONER PEEVEY: Well, thank you very much. Are
17 there questions here? This is really a very exhaustive set
18 of materials and all. I think some of us probably want to
19 ponder it a little bit. But other questions here?
20 Secretary.

21 SECRETARY MC PEAK: Thank you, Mr. Chairman. It is,
22 and I've had the benefit of having Martha's input before.

23 We are often asked at the cabinet level of the
24 administration, how do we know that we've got the best
25 thinking in the world on whatever the subject is. You know,
26 it can be very, very daily things, something such as
27 transportation to something like the very sophisticated
28 energy research you're reviewing. So my question is, either

1 to you or Commissioner Geesman, and maybe you were beginning
2 to give the answer: How is the PIER program peer-reviewed?
3 How do we know that it is capturing the best thinking and how
4 is the peer review of the PIER program institutionalized?

5 COMMISSIONER PEEVEY: Who wants to answer that?
6 Commissioner Geesman.

7 COMMISSIONER GEESMAN: The legislature required that
8 we establish an independent review panel of scientists from
9 around the country to review the program's overall
10 performance. Preceding that, each of the specific foci of
11 the program had technical reviews that were done I think now
12 in the fall of 2002 most recently, and then Martha has
13 implemented a policy advisory committee for many of the areas
14 that the program currently focuses on comprised of external
15 experts. There's a real effort, and frankly, when the
16 legislature has insisted upon it, that we continuously
17 benchmark our work with work going on elsewhere in the world.

18 COMMISSIONER PEEVEY: Okay. Commissioner Grueneich.

19 COMMISSIONER GRUENEICH: Yes. I want to thank you
20 very much, that R&D is an area that I long felt is very, very
21 critical in the energy area because we just have to be making
22 this investment. And I feel very fortunate that we have been
23 provided with this funding.

24 And one of the things that has become apparent to
25 me in the almost year that I've been a commissioner is that I
26 think that there could be a better coordination between at
27 least the Energy Commission and the PUC and possibly with the
28 ISO, though I know, you know, there are a number of areas

1 where you're working, because I have found in at least a
2 couple of instances where it seems that a report or a review
3 has been done by the Energy Commission under the PIER program
4 that is geared at then influencing what we at the PUC do.
5 And I'm always a believer of there's going to be more of a
6 buy-in if the people who are tasked with implementing the
7 recommendation actually have some involvement in the
8 development of the recommendation, because I worry that the
9 PIER program may be less effective and become, sometimes,
10 certainly not always, my belief is that in many areas the
11 PIER program really is the national standard if not
12 international, but for the PUC, I just worry that we may have
13 a situation where reports sit on the shelf essentially as
14 opposed to really being bought into by our agency.

15 And so one of the things that I'd like to
16 volunteer to explore as the, I guess, the Energy Commission
17 will be preparing the next five-year plan is ways that we at
18 the PUC could be working to try to ensure that whatever are
19 the results of your efforts are more fully utilized here.
20 And so that's something, I don't know if this is, if there's
21 a history of PUC interacting with PIER, but if not and if
22 it's felt that this would be of some use, I'm very interested
23 in working in the R&D area.

24 COMMISSIONER PEEVEY: Thank you. Chairman Desmond.

25 CHAIRPERSON DESMOND: Just I wanted to respond. I
26 think it's a good suggestion. The challenge with R&D is
27 always how you take it from the lab and from the report and
28 make it useful in the real world. And what you've hopefully

1 got is a sense of the tremendous amount of work and content
2 that is available in forming decisions. In fact, it was the
3 last time, I think, we were here when Susan Kennedy was
4 asking about demand response. As I mentioned, we had spent
5 \$10 million on statewide pricing pilot and a lot of other R&D
6 on price elasticity and that that R&D ought to inform our
7 policy development.

8 And so I'd recommend two things right away. One
9 is all of these projects have project advisory committees,
10 and the PUC staff, to the extent that they're interested in
11 the subject matter, could certainly participate as a project
12 advisory committee member. The second is to think about how
13 to require the investor-owned utilities to incorporate the
14 R&D research into the filings that they make as another way
15 of making sure that the PUC is pulling that information
16 through in the way of content. Those are two immediate
17 things in addition to compared to any sort of automatic
18 five-year investment plan.

19 COMMISSIONER PEEVEY: That's a good idea. Are there
20 other questions or comments on this?

21 COMMISSIONER BOHN: Just one comment, one comment from
22 someone who comes out of the private sector. The perfect is
23 the enemy of the good, and I want to follow up on Secretary
24 McPeak's comment. We can have the world's best science, and
25 we won't get it to where it produces any benefit to
26 California for a long enough time that it might somehow be
27 then eclipsed by other science.

28 What's the balance that you're trying to draw

1 between stuff that's really good and you can get to
2 application as distinguished from pure science? I get a
3 little uneasy when you talk about the best science in the
4 world and things like that, because there's a ton of that
5 stuff out there, but our job is to get it in place and get it
6 operating.

7 COMMISSIONER ROSENFELD: I guess I'd like to try to
8 reassure you on that. We don't appear representing
9 California try to compete, we try to collaborate, but we
10 don't try to compete with the Department of Energy on the
11 very frontiers.

12 Also we have an unwritten rule that -- two
13 unwritten rules. One is that at least half of what we do is
14 focused on end use and end use efficiency and demand
15 response, which is certainly not the way the Department of
16 Energy looks at things. So we're a good player in that, and
17 we collaborate with a number of other states. We also put
18 something like a third of our R&D into climate change and
19 environmental things, which again is not what the Department
20 of Energy does.

21 And the other thing we try to take into
22 consideration very strongly is what are the needs of policy
23 in California. That is, if you look at where PIER dollars go
24 in energy efficiency, for example, you'll find that a lot of
25 them go into R&D which is necessary for the next set of
26 bidding standards or appliance standards of demand response.

27 And one thing I might say to Commissioner
28 Grueneich: It is a problem. We have our planning sessions

1 every year. We always invite somebody from the PUC. We
2 don't necessarily always get somebody from the PUC. And I'm
3 overjoyed at the idea of tighter collaboration because a lot
4 of what we do really is influenced by knowing what the needs
5 of the Energy Commission are. And that's something that
6 happens by diffusion at the lunch table. And we need more
7 PUC --

8 COMMISSIONER PEEVEY: Input.

9 COMMISSIONER ROSENFELD: -- input, right.

10 COMMISSIONER PEEVEY: Okay. Well, going forward we'll
11 try to make sure that happens.

12 Ms. Krebs, thank you very much for your
13 presentation here.

14 And we're significantly behind time here, which is
15 probably the fault of the chair here, but we next have a
16 brief report on the Energy Commission's 2005 IEPR and the
17 PUC's 2006 long-term procurement plans, Mr. Kennedy, Mr.
18 Kennedy, Kevin Kennedy, and Sean Gallagher. And then we'll
19 have a briefing on where we are on the solar program, the
20 Million Solar Roofs, and then we'll hear from the public, and
21 that will pretty much wrap it up for today.

22 You've agreed on a division of labor there?

23 MR. KENNEDY: Yes, we have. The division of labor is
24 essentially Sean has already said much of what needs to be
25 said about procurement. So it's all on my shoulders for this
26 round.

27 COMMISSIONER PEEVEY: Good going, Sean.

28 (Laughter)

1 COMMISSIONER PEEVEY: Bob and weave.

2 STATEMENT OF MR. KENNEDY

3 MR. KENNEDY: I'm Kevin Kennedy. I was the program
4 manager at the Energy Commission staff level for the
5 2004/2005 cycle of the Integrated Energy Policy Report, and
6 I'm extremely pleased to be here reporting on the completion
7 of that cycle.

8 For the Energy Report proceeding overall the basic
9 requirements for the proceeding are laid out in the Public
10 Resources Code. The basic purpose of the proceeding overall
11 is to develop an integrated policy for the State for energy.
12 Policy recommendations are expected to be made based on an in
13 depth and integrated analysis of energy issues facing the
14 state.

15 A second purpose is for the Energy Commission in
16 this proceeding to the extent possible to develop a common
17 information base for all of the energy agencies to use in the
18 important decisions that they need to make. One of the
19 directions that we had at the staff level from Commissioners
20 Geesman and Boyd, the committee directing this proceeding,
21 were to treat that expectation of developing a common
22 information base that Energy Commission staff needed to deal
23 with the other agencies as our clients to try to determine
24 what it was that the other agencies needed in order to make
25 sure that to the extent that we could we were able to develop
26 information that would be both useful and used by other
27 agencies. In terms of timing, the main report is expected to
28 be adopted every other year, and we just adopted the 2005

1 report last month.

2 The proceeding overall was a very extensive public
3 proceeding. We worked in collaboration with various state,
4 federal and local agencies. There were 59 days of committee
5 hearings and workshops on a wide variety of topics. Over the
6 course of the proceeding there are more than 30,000 pages of
7 materials included in the Energy Report docket. We prepared
8 more than 50 staff and consultant reports. Once we got to
9 the point of the committee draft versions of the various
10 reports that were adopted by the Commission, we received more
11 than 100 comment letters on those committee draft reports.
12 Those three reports were the 2005 Energy Report itself, the
13 Strategic Transmission Investment Plan, and the Transmittal
14 Report to the PUC, and all three of those were adopted at the
15 November 21st business meeting and all are available on the
16 Energy Commission web site along with most of the material
17 from the proceeding.

18 I'm guessing that most of you have read fairly
19 thoroughly the parts of the Energy Report and related
20 materials that are of most interest to you. Rather than
21 trying to capture in any way the findings and recommendations
22 that were made, just include this one slide which highlights
23 the key chapters that were addressed within the Energy Report
24 itself. We dealt with transportation fuels, electricity
25 needs and procurement policies, demand-side resources,
26 distributed generation, and other supplies, transmission
27 challenges, renewable resources, natural gas, water and
28 energy integration, local climate change, and

1 California-Mexico border region energy issues.

2 In addition to the Energy Report itself, the
3 Public Resources Code calls on the Energy Commission to adopt
4 a Transmission Strategic Plan. This is a requirement that
5 was added fairly recently. The new section of the Public
6 Resources Code calls on the Energy Commission to adopt the
7 strategic plan for the electric transmission grid. This was
8 a second report that was adopted by the Energy Commission at
9 the November 21st meeting.

10 Another key thing that we were dealing with
11 throughout the proceeding, as Sean mentioned when he was
12 talking about the upcoming procurement proceeding, was trying
13 to work very closely with the PUC in coordinating the 2005
14 Energy Report proceeding with the upcoming 2006 procurement
15 proceeding here at the PUC. President Peevey issued an ACR
16 in September of 2004 identifying the 2005 IEPR process as the
17 forum for developing the range of need for the 2006
18 procurement proceeding, and that ACR was endorsed by the full
19 PUC in last year's procurement decision. Further detail was
20 laid out in a second ACR in March of 2005 that was also
21 endorsed by the Energy Report Committee in an order that they
22 issued at the same time.

23 The Transmittal Report, which is the third of the
24 reports that were adopted on November 21st, is our attempt to
25 provide to the PUC the recommendations for 2006 procurement
26 and related proceeding, particularly focussing on the range
27 of need for the three largest investor-owned utilities.

28 The overall Transmittal Report includes the

1 general procurement policy recommendations, walks through how
2 we constructed the range of need, talks about the demand
3 forecasts, how we reviewed those during the Energy Report
4 proceeding and what we ended up adopting, the resource plans
5 that were provided by the different utilities, and how we
6 evaluated those, and identifies the range of need itself.

7 In addition, there are chapters addressing the
8 natural gas forecast and the transmission project
9 recommendations. And with this point, we are essentially
10 handing the Transmittal Report off to the PUC, who will be
11 participating in the workshops that Sean mentioned Wednesday
12 of this week. And we're looking forward to continuing to
13 work with the PUC to try to ensure that the results of what
14 we did in the 2005 Energy Report proceeding will be used and
15 useful for the PUC in the procurement proceeding next year.

16 And unless Sean has anything to add, if any one
17 has any questions.

18 COMMISSIONER PEEVEY: Sean, would you like to add
19 something? You're not going to get off without saying
20 anything.

21 MR. GALLAGHER: I'll say only that, as Kevin
22 mentioned, we've worked closely with the Energy Commission
23 staff on the development of the Transmittal Report. We spent
24 a lot of time with them trying to ensure that it met what we
25 perceived to be our needs. And so we expect to use it to the
26 maximum extent feasible in the 2006 procurement proceeding.
27 And I'm here for questions as well.

28 COMMISSIONER PEEVEY: Very good. Other questions or

1 comments on all this? No?

2 If not, thank you very much, both of you. And now
3 we'll hear from Ms. Julie Fitch, the head of Strategic
4 Planning at the PUC, on solar initiative.

5 STATEMENT OF MS. FITCH

6 MS. FITCH: Good afternoon, every one. I'm actually
7 joined by my colleague, Tim Tutt, from the Energy Commission.
8 We're going to tag team this presentation. So bear with us.
9 This was originally created for one person to do, but we're
10 going to try to do it together. Also we completely balked at
11 the orange template for the slides. So sorry, but ours is
12 prettier.

13 What we're describing this afternoon is
14 actually -- this is unusual in that we're giving you a
15 preview of something that's going to be issued tomorrow.
16 This proposal that we're discussing will be contained in a
17 draft decision that's going to be issued tomorrow that will
18 also have attached a joint staff report, joint CPUC and CEC
19 staff report. This is the culmination of something that's
20 been in the works for, as most of you know, about two years.
21 This was originally titled the Million Solar Roofs
22 initiative.

23 The legislature has had SB 1 under consideration
24 for two years in a row. And in parallel with that, this past
25 summer in June we actually were trying to stay current with
26 what was going on in the legislature, and we actually issued
27 a staff report in June that summarized our proposal at that
28 time. And since the bill did not pass again this year, the

1 Governor actually asked President Peevey to see if we could
2 implement what we can do as far as part of the solar
3 initiative. And so this is the proposal to do that.

4 There are two things that we cannot do, I think at
5 least two things, as a regulatory agency. One is the net
6 metering provisions in law actually need legislative action,
7 and the second one is we have no ability to require
8 developers or builders to offer any solar. But other than
9 those two things, this is our summary of the solar
10 initiative.

11 What I'm going to do in the next two slides is
12 just summarize two existing programs that were going to lead
13 into the new solar initiative. The first is the PUC
14 self-generation program. Most of you are familiar with this.
15 This is a program that offers incentives for solar as well as
16 wind and fuel cells and some gas-fired generation that's
17 operating in combined heat and power mode to take advantage
18 of efficiencies. This program offers incentives for solar
19 projects that are greater than 30 kW in size, which means
20 really commercial and industrial systems. There's been a
21 budget of approximately 50 million a year since 2001, and at
22 the moment we have about 50 megawatts of solar already
23 installed and another 62 megawatts that's somewhere in the
24 installation process and under construction.

25 The CEC in parallel with this has an existing
26 program called the Emerging Renewables Program, which is
27 funded out of public goods charge money and has been in place
28 since 1998 therefore, and this funds primarily residential

1 systems. And we have approximately 62 megawatts installed
2 since 1998. For both of these programs, the existing
3 programs that the PUC and the CEC have collaborated in recent
4 years, and our plan is to continue that. And Tim is going to
5 describe in the next couple of slides the plan for two new
6 program components, again, one centered at the CPUC and one
7 centered at the CEC. Tim.

8 STATEMENT OF MR. TUTT

9 MR. TUTT: Thank you, Julie. Good afternoon,
10 Commissioners, Secretaries.

11 As Julie mentioned, the Emerging Renewables
12 Program is funded by the public goods charge, and the public
13 goods charge cannot be increased without legislation. So
14 consequently, to achieve the spirit of SB 1 in the coming
15 years administratively as much as we can, much of the
16 installations that previously had been funded at the Energy
17 Commission will be shifted to a new CPUC program which will
18 cover existing residential buildings, single family,
19 multi-family, low income, as well as all nonresidential
20 building construction, commercial, industrial, and
21 agricultural facilities.

22 With that shift, the CEC program public goods
23 charge funds can be concentrated on new residential buildings
24 only, single-family homes, low-income and multi-family
25 apartments. We will specifically target and work with the
26 builder/developer community in this new program that we're
27 developing at the CEC with the public goods charge funds, and
28 we'll be coordinating with our transition into standards that

1 the CEC has been working on a solar option which will look at
2 a higher compliance level for standards including solar and
3 other energy efficiency measures as part of the 2008
4 standards.

5 And in order not to spring these two new programs
6 on people and the stakeholders in the industry, we do
7 perceive that 2006 is a transition year.]

8 The administration initially for these programs
9 will continue through the self-gen incentive program and
10 emerging renewables program. The \$300 million that has been
11 funded in previous decision or proposed decision for the
12 self-gen program is part of that transition funding. And
13 there is similar funding in ERP for transition for 2006.

14 The agencies will work on developing a new program
15 structure in 2006, including a new program administrator
16 structure for initially the residential retrofit market,
17 which will be one of the new efforts primarily at the PUC.
18 As I mentioned, the Energy Commission will be working on a
19 new program focused on new construction, residential
20 construction. We also will be working on moving towards a
21 payment for system performance or performance-based incentive
22 structure rather than an output-of-capacity-based structure,
23 which is how the previous or the existing programs had
24 primarily been structured.

25 And we feel it is important to develop marketing and outreach
26 plans to achieve the significant goals of 3000 megawatts over
27 ten years.

28 Turning back to Julie.

1 MS. FITCH: I am going to talk a little bit about the
2 funding.

3 This slide shows what is expended -- it is
4 intended to show the approximate budget that would be
5 available in each year for rebates for solar.

6 As Tim said, 2006 we consider to be a transition
7 year. So it is actually 11 years worth of funding. Total
8 amount, approximately 2.8 billion under the CPUC program, 400
9 million under the CEC one.

10 The actual spending in each year will vary
11 depending on how many customers actually want to install
12 solar and how many apply for rebates. So this is intended to
13 be sort of the budget but not actual spending.

14 Another thing to note is that the CEC currently
15 has authorization only for 2011. So this is not actually
16 collections because basically the funding, the CEC is
17 intending to spread the funding out over the 10-year period
18 even though the collections would occur in a smaller number
19 of years.

20 It is possible also that the Legislature would
21 extend the public goods charge funding, in which case there
22 will be additional funding for that market segment.

23 Another thing to note about this slide is that we
24 are proposing to collect more money in early years and sort
25 of ramp down over the 10-year period. There's two main
26 reasons for that. One is it maximizes our flexibilities if
27 we have more funds collected in case there is more program
28 up-take in the early years. The second reason is because, as

1 you will see on the next slide, we are proposing to have the
2 rebates decline over a period of time so that initially the
3 rebate amounts will be more and therefore the budget amounts
4 would likely be more as well.

5 So the next slide shows the rebate levels as well
6 as the plant installations. This is for the CPUC component.
7 I imagine there would be a similar slide for the CEC
8 component except it would have smaller amounts associated
9 with it.

10 But the blue line is the rebate level that we
11 would propose to adjust on an annual basis or we could
12 potentially adjust it when we meet the megawatt targets,
13 which are in the red blocks on the graph.

14 So the total anticipated installation would be
15 2600 megawatts from this program. And that's if we are
16 successful.

17 So the idea is to decline the rebate amounts over
18 time in an orderly fashion so that we can support what we
19 hope is a self-sustaining market by the industry ultimately.

20 The next slide just describes what we would fund
21 initially. What we are proposing is to just start out by
22 funding photovoltaics in rooftop installations on the
23 customer's side of the meter between 1 kilowatt and
24 1 megawatt in size. This corresponds to the net metering cap
25 that is currently in place, the size cap.

26 We would also in 2006 during our transition year
27 work on developing incentive levels to fund a whole host of
28 additional technologies that are solar oriented, including

1 solar hot water heating, solar heating and cooling, which is
2 a new technology, which could be very useful, and also
3 concentrating solar or solar thermal electric technologies in
4 DG configurations.

5 But this is not for the types of concentrated
6 solar projects like in the Mohave desert that have been
7 announced recently.

8 Finally, Tim is going to talk about our efficiency
9 and low income provisions.

10 MR. TUTT: We intend in our new programs to have a
11 strong coordination to energy efficiency efforts in the
12 state. So for the existing facilities that want to install
13 solar, we are expecting to require that energy efficiency
14 audits be included in the transaction so that the customers
15 that are installing solar have some concept of the degree of
16 energy efficiency that could be included in the project that
17 is necessary in their existing homes and businesses.

18 And for new construction applications, although
19 new buildings are already fairly efficient in California
20 because of our strong standards in the state, we anticipate
21 requiring that new construction applications participate in
22 the utility energy efficiency programs for new construction
23 that tend to go beyond the standards.

24 Our intent is to have a level of efficiency beyond
25 the standards as a part and parcel of the solar programs that
26 we are developing on the new construction sector.

27 We also expect to connect and coordinate strongly
28 with the advanced meters and time varying rates proceedings

1 at the Public Utilities Commission so that the solar systems
2 are part of the new world where advanced meters can help
3 monitor and understand exactly how solar systems are being
4 included and helpful to the system as a whole and the rates
5 are appropriate for these installations.

6 And finally, but not by any means the least, we do
7 recognize that there's a real need for our less advantaged
8 customers in the state to be included in this program. So we
9 intend to set aside 10 percent of the funding for low income
10 and affordable housing projects.

11 Both single family and multifamily structures,
12 both existing and new, will be eligible to participate in
13 this set aside for low-income customers or affordable housing
14 customers. And we will consider setting different incentive
15 levels to make the program work for these customers.

16 Both agencies will also explore the option of
17 offering low-cost financing for this sector and perhaps even
18 for other existing customers as we move forward. And
19 particularly with performance-based estimates it may be
20 necessary to include a stronger financing component.

21 One last point, and that is a legislative point.
22 Another thing we cannot do administratively at this point is
23 require participation of the municipal utilities, the
24 customer-owned utilities, in the state in this program.

25 We do intend at the Energy Commission to work as
26 cooperatively as we can on the new construction programs.

27 Some of the fast growing areas of the state that
28 are located in those customer-owned utility services will

1 hopefully establish and participate in a coordinated fashion
2 with our solar initiative.

3 Thank you.

4 COMMISSIONER PEEVEY: Thank you very much.

5 Before there are any questions, let me just say I
6 want to personally thank my former energy advisor and now
7 head of strategic planning Julie Fitch and Tim Tutt at the
8 Energy Commission and Jacky Pfannenstiel for working, all of
9 us working, and Joe Desmond, all of us working so closely on
10 this program which is now being unveiled here and will be on
11 our website and out in the mail I guess tomorrow, right, the
12 13th, so that it can be adopted by the Commission on January
13 12th.

14 Now we are going ahead with the funding of this
15 program on the 15th of this month, three days from now.

16 Jacky, do you have anything to add?

17 VICE CHAIRPERSON PFANNENSTIEL: I think that what we
18 are trying to do here is take the existing programs, keep
19 them going, but focus them where we have the greatest
20 opportunity to have an impact. I think the PUC program is
21 combining the best features of the two programs that are
22 going on now. I am quite excited about the idea of this new
23 Energy Commission program which is really targeted on what I
24 think is going to be the biggest bang for the buck that we
25 are going to spend in solar.

26 We are going to focus on new homes, as Secretary
27 McPeak reminds us, 200,000 new homes being built in
28 California each year, that are largely in high air

1 conditioning load places of the state where solar makes the
2 most sense.

3 The Energy Commission has a lot of experience
4 working with developers through the energy efficiency
5 standards that we have had for a number of years. So we want
6 to work with the developers to make solar one of the key
7 market points on these new homes.

8 So when you tie that back with energy efficiency,
9 not only the higher levels of energy efficiency in the
10 regular standards, but going beyond the standards to even
11 greater levels of energy efficiency with, of course, advanced
12 meters, I think you have a package for new homes in
13 California that I think will keep from driving that
14 increasing air conditioning peak that we are all dealing
15 with.

16 So I think that the work that Tim and Julie have
17 done putting this together in a short period of time has been
18 just remarkable.

19 COMMISSIONER PEEVEY: Thank you very much.

20 Other questions and comments on this.

21 Mr. Desmond.

22 CHAIRPERSON DESMOND: Just a few.

23 I want to commend the staff, President Peevey and
24 Commissioner Pfannenstiel for really taking a step back and
25 saying how do we construct and design a program that works in
26 the best interests of Californians. I think that you have
27 done it here.

28 Second, I also think you have a proposal that is

1 flexible enough that should the Legislature take up the issue
2 of builder mandates and net metering, that it will fit very
3 well and dovetail right into what you put together here. So
4 in that sense it has been designed to be complementary of
5 things that the Legislature would still need to do. I know
6 there is interest there in looking at that.

7 And then two final thoughts here. One is to
8 ensure that the meter data from those advanced meters is
9 available to the Commission, PUC and the CEC for measurement
10 and verification as well as our research and development
11 purposes. We are going to want to know early on how this is
12 performing. So that ought to be a condition, is that we have
13 use of that information for our purposes.

14 Lastly, as we think about how to put the rules in
15 place for participation, that we really design it so it is as
16 easy as possible for customers to participate and not to
17 overly complicate it in the interest of data adequacy but,
18 rather, make sure customers can fully take advantage of it in
19 an expeditious way. And there is a lot of good lessons we
20 learned by the way the rebate programs are run, and I think
21 they could be applied here. So I want to thank everyone for
22 the hard work.

23 COMMISSIONER PEEVEY: Thank you.

24 Commissioner Grueneich.

25 COMMISSIONER GRUENEICH: I want to commend everyone as
26 well. I am very, very pleased to see that the low income
27 component is included. When we were first starting to think
28 about it, that was an area that I specifically requested be

1 included.

2 I am the assigned Commissioner at the PUC on low
3 income issues, and after today's announcement I assume that
4 there will be question for the low income portion
5 specifically on when will the program actually roll out so
6 that a low-income resident could apply for the funds.

7 Do we have any sense? Mid 2006 by the time we got
8 that particular part of the program designed?

9 MS. FITCH: I would say mid 2006 is our goal, but at
10 the latest it would be 2007.

11 COMMISSIONER GRUENEICH: I strongly urge that to the
12 extent we are going to be rolling out portions of the program
13 in 2006, if you can try to keep the low income part of that,
14 that would be very appropriate.

15 MR. TUTT: May I just add, Commissioner Grueneich,
16 that low-income customers do participate in our current
17 emerging renewables program and will be able to do so in 2006
18 until the new program is unveiled.

19 COMMISSIONER PEEVEY: Other questions or comments?

20 SECRETARY MC PEAK: I think what I just heard is that
21 there may be something that will be done in 2006. And to the
22 extent that there can be any demonstration of the program of
23 a phased roll-out while there may be some policy discussion
24 during 2006, that would be very, very helpful.

25 COMMISSIONER PEEVEY: Okay. Thank you both very much
26 and for all the time and effort you put into this.

27 We now turn to the phase where we have three
28 people that would like to address this joint meeting. The

1 first is Andrew Michael, the Bay Area Council.

2 Mr. Michael.

3 You will be followed by Marcel Hawiger of TURN and
4 Chris Mayer of the Modesto Irrigation District.

5 STATEMENT OF MR. MICHAEL

6 MR. MICHAEL: Mr. President, Commissioners, Secretary,
7 my name is Andrew Michael with the Bay Area Council.

8 As you may know, the Bay Area Council represents
9 275 of the largest employers and businesses in the
10 nine-county Bay Area.

11 We have great concern over energy issues and the
12 pricing of energy and have a great deal of interest in the
13 number of the issues that we are talking about today.

14 The Bay Area Council has an energy committee, and
15 it is composed of a number of industry leaders from the
16 health industry, information technology, biotech,
17 manufacturing and also energy providers.

18 Earlier this year the Bay Area -- late last year
19 the Bay Area Council recognized the importance of energy and
20 set up eight principles that we are really working toward.
21 One is to assure adequate energy reserves through long term
22 planning and procurement. Two is to promote low-income costs
23 through competitive wholesale procurement. Three is to align
24 utility rates and cost allocation to be equitably based on
25 the cost of service to the user.

26 Four is to provide retail choice for California
27 businesses. Six is to encourage energy supply from cost
28 competitive renewable energy resources and alternative fuels

1 that reduce impact on the environment. And next is to
2 upgrade and expand the transmission line capacity to provide
3 added security and capacity to receive energy from new and
4 existing sources. And lastly is to promote aggressive
5 conservation and demand management through financial
6 incentives to customers as well as through volunteer efforts.

7 Over the past year we have had the pleasure of
8 having a number of you present to our Commission. John
9 Gallagher came earlier, as well as Chair Mr. Joe Desmond,
10 California Commissioner, and also John Geesman came recently.
11 And we have had Assemblymember Richmonds, chief of staff,
12 speak to us as well as Assemblymember Levine.

13 What we wanted to really stress today is really
14 three things. One, we appreciate your acknowledging and
15 using the integrated energy policy report. We think that is
16 a great addition in terms of how the state addresses energy
17 supply and other matters.

18 Number two, you described in the beginning the
19 next phase on long term procurement. We really ask that that
20 be acted on swiftly. Even if you could go faster, that would
21 be better.

22 Based on the time frames needed for siting and
23 then actually building and getting new production on line, as
24 we saw in 2007, there may be some challenges there. So the
25 faster, the better.

26 And secondly, and very much related to that, is we
27 really need the California state to really make a clear
28 distinction and approach to the kind of market structure we

1 want. It is still muddled after our crisis in 2001. We
2 really ask the question are we moving away from hybrid model
3 toward a more competitive wholesale energy market or not?
4 And if we are, can you make that clear, partly through the
5 long term procurement process that you are engaged in, can
6 you make it clear so that it is a competitive market for
7 potential new energy suppliers in the way that costs are
8 allocated for that.

9 And so we ask you to move quickly and rapidly on
10 that.

11 The next point is that businesses, a number of
12 large businesses, really think it is important to bring back
13 direct access for retail customers. And we hope that that
14 will also move forward more rapidly than it has.

15 And finally, in terms of resource adequacy, we
16 applaud the steps that have been taken, but there are some
17 improvements that still need to be added in there, especially
18 to make sure that existing power plants, as well as others
19 that may come on line, are adequately compensated for their
20 production.

21 So we thank you for your continued work, and we
22 look forward to rapid implementation of these things. And
23 the last comments I want to make is also that we are also
24 very much in favor of promoting more rapid use of net
25 metering and advanced metering.

26 In terms of the load mix that you have as
27 priorities, I think the idea of really linking the net
28 metering to some of the renewable resources like solar is an

1 important thing, as we have seen from other places around the
2 world, Germany especially, Japan, where you actually give a
3 sort of guaranteed level of compensation for that energy, and
4 you get better results and reduce the costs of that
5 implementation.

6 Thank you.

7 COMMISSIONER BROWN: I just had a question. I was
8 speaking with a utility executive the other day, and he gave
9 me an indication that private customers were moving back --
10 those existing direct access customers -- were moving back to
11 the utilities. Do you see any evidence of that?

12 MR. MICHAEL: We have heard that from some of our
13 members. A lot of it being in a way the disincentive that
14 continues to be added on to the direct access customers.

15 COMMISSIONER BROWN: You mean the cost responsibility
16 surcharge?

17 MR. MICHAEL: Yes.

18 COMMISSIONER BROWN: Okay.

19 COMMISSIONER PEEVEY: Thank you very much.

20 Next is Marcel Hawiger.

21 STATEMENT OF MR. HAWIGER

22 MR. HAWIGER: Thank you very much, President Peevey.
23 Good afternoon, Secretary McPeak, Secretary Chrisman and
24 Honorable Commissioners of the PUC and Energy Commission.

25 I came here primarily wearing my natural gas hat,
26 though I will probably touch upon demand response just so you
27 all will stay awake.

28 Let me first commend the Public Utilities

1 Commission for very rapidly acting on several packages to
2 help ameliorate the natural gas price exorbitant levels.
3 TURN very much appreciated the Commission acted to improve
4 the CARE program, to implement PG&E's 10/20 program, to
5 authorize hedging activities and SoCalGas' storage project.
6 And we supported all of those actions.

7 We also appreciate that the Commission is moving,
8 continuing to move forward on its commitment to accelerating
9 renewables through the potential program just unveiled today.
10 We filed comments supporting an increase in the funding for
11 the self-generation incentive program. And we appreciate
12 movement to accelerate RPS standard.

13 Despite that, I do want to make one criticism, and
14 it may be minor, but we were extremely disappointed the
15 Commission did not act to take -- missed a cost opportunity
16 to enact a program that would have provided the greater
17 benefit for natural gas customers. And I want to explain
18 this not just to beat up on the PUC, even though that is a
19 favorite pastime, but today I have a broken foot and I am
20 afraid if President Peevey comes after me I can't run away.
21 So I actually want to mention this because I do have a couple
22 of constructive suggestions I hope that come out of it.

23 PG&E and TURN both proposed basically a deferral
24 program, a rate deferral program, that would have capped rate
25 increases for natural gas and moved the annual revenue
26 collections to the summer months. PG&E agreed that they
27 could do this financially and defer collection until the
28 summer months. But the Commission rejected this program,

1 though it did adopt the conservation 10/20 program. But the
2 revenue deferral program would have probably made the most
3 difference to all natural gas customers by limiting large
4 rate increases.

5 And the Commission rejected it because basically
6 two reasons. The first, it said the Commission was
7 concerned, the Public Utilities Commission, was concerned
8 about the impact on summer bills. Now that is a little hard
9 to understand because summer bills for natural gas are always
10 low. Even if prices stay the same, people don't use natural
11 gas in the summer. And PG&E provided a lot of data and
12 comments showing that by reducing bills in the winter,
13 December through March, by between ten and \$20 a month, when
14 the bills are all over a hundred dollars every month for
15 their average customer, in the summer you collect over the
16 June through October an additional \$10 or less, bills are
17 always below \$50. So I was a little perplexed by that
18 explanation.

19 But secondly, the Commission said that they are
20 concerned about sending the wrong price signal for
21 conservation. Well, first of all, gas prices have already
22 doubled since 2003. The proposal would have basically
23 ameliorated the hike that came out of the hurricane impacts.
24 But more importantly, when I talked to people -- and I urge
25 you to talk to any person you know, aside maybe from
26 Borenstein and Wolack, I admit they have a different view --
27 but those people are concerned about their monthly gas bill.
28 They don't necessarily look at the per therm rate for better

1 or for worse. And they know that their winter bills are
2 going to be -- a lot of them know they are going to be very
3 high. But that is what they are concerned about.

4 And frankly, it seems to me totally inconsistent
5 for the Commission to be concerned about the per therm price
6 signal when at the same time it is pushing the utilities on
7 the gas side to promote the level payment plan.

8 The level payment plan allows customers to pay the
9 same amount each month. In fact, TURN has not, while we
10 supported it, we never pushed the level payment plan
11 precisely because we do think it sends the wrong conservation
12 signal because we think that those high monthly bills are
13 what causes people in the winter to try to reduce their
14 natural gas use.

15 But I do think there is one or two recommendations
16 that I would draw from this. And one is that we can do more
17 with monthly bills to promote conservation. And I think this
18 applies to both gas and electric.

19 Secretary McPeak mentioned that we are still
20 installing dumb meters. And I would -- TURN fully supports
21 putting in smart meters as well as perhaps solar in new
22 construction. That is a totally cost effective sensible
23 thing to do. The question is do you go ahead and retrofit
24 those millions of dumb, dependable and dirt cheap meters that
25 are already out there. And I would say that we can probably
26 promote conservation by doing more with what we have because
27 I do not believe that smart meters will make smart customers.
28 I think smart customers require information and ability to

1 reduce in order to conserve.

2 For example, the current PG&E bill tells you how
3 much you use each month and then tells you how many
4 kilowatt-hours or therms you used the same month last year.
5 Now that is pretty interesting. But it doesn't really -- it
6 helps tell you how you were acting compared to a year ago. I
7 am not sure people will necessarily remember exactly what
8 they did a year ago that made things different.

9 A simple idea: What if PG&E provided a histogram
10 or chart of monthly use in each bill. Now that might make
11 people realize first of all on the electric side that they
12 use a lot more in the summer. On the gas side they probably
13 already know they use it in the winter. But that is a little
14 clearer.

15 It might promote some conservation. I am not
16 sure. It is just an idea. I say it because next month the
17 executive director is supposed to recommend to the Public
18 Utilities Commission whether to open a rulemaking on making
19 bill formats more customer friendly.

20 I think that there are things to do to make it
21 more customer friendly and at the same time to make better
22 use of existing data to promote conservation.

23 Now the last thing I will say is that obviously
24 for TURN it does come down to an issue of cost effectiveness,
25 and we hope the Commission looks at that in all cases. If
26 PG&E turns around and tells me that it will cost \$500 million
27 to change Cordaptics to give better information to customers
28 but they could go ahead and put in meters on everybody and

1 charge us less than that because of the benefits, I will walk
2 away and I will shut up. But I do hope that the Commission
3 looks at that and considers ways to use monthly data on bills
4 because people do care about monthly bills.

5 Thank you very much.

6 COMMISSIONER PEEVEY: Thank you, Mr. Hawiger.

7 The next is Chris Mayer, MID.

8 STATEMENT OF MR. MAYER

9 MR. MAYER: Thank you very much. My comments will be
10 very short.

11 During the discussion of demand response,
12 Secretary McPeak had an observation that there may be a few
13 more demand response programs floating around within
14 municipal utilities. Modesto Irrigation District, our
15 board's policy is that 5 percent of our peak load will be
16 maintained in demand response activities. And our peak was
17 about 632 megawatts this year.

18 We have an air conditioner control program called
19 STEP. Shave the Energy Peak is the acronym. This program
20 was founded in the early 1980s, and at the time got a lot of
21 help from PG&E because they had some programs in the San
22 Ramon area. We maintain this program in place now
23 continuously since that time.

24 We have up to 14,000 participating customers. And
25 that program will take out about 12 megawatts at the time of
26 our peak. And the nice thing about the program is the hotter
27 it is, the more demand relief we get from air conditioning
28 cycling program.

1 So that is the reason for some of those ranges you
2 saw earlier. At lower temperatures you get less response,
3 but of course at higher temperatures where you need the
4 response you get stronger response.

5 We also have an industrial interruptible program
6 with about 22 megawatts of participation. So adding those
7 two together we have about 34 megawatts. And it is a little
8 over 5 percent of our peak.

9 Now we do report our demand response each year to
10 both state and federal agencies. So we will follow through
11 and make sure to see how that wasn't picked up on the report.

12 But again, we have had these programs for a long
13 time. They really are important for us. We do have very hot
14 weather in our service territories. And it is much more
15 efficient to meet some of this load with demand than it is to
16 build additional peaking facilities.

17 Thank you.

18 COMMISSIONER PEEVEY: Thank you. I am sure the CEC
19 will personally talk to you.

20 We do have two more speakers. Juliette Anthony.

21 STATEMENT OF MS. ANTHONY

22 MS. ANTHONY: Good afternoon. I am Juliette Anthony
23 from Sun Power and Geothermal Energy in San Rafael, and many
24 thanks to the Commission, all the Commissioners and the
25 Secretary, for implementing this program. We are thrilled.

26 What I do want to say is I would like to urge you
27 to go as quickly as possible to performance-based incentives.
28 I am a member of Americans for Solar Power which has spent

1 months preparing the document that we submitted, because
2 Americans for Solar Power believe in accountability and
3 oversight. You are giving a very generous grant to our
4 industry and all the solar technologies, and we want to be
5 truly responsible.

6 I will explain to you that with the capacity-based
7 rebates that we have now you are paying for solar panels that
8 go in. You are not paying for the power produced. A flat
9 system will in fact produce about 20 percent less than a
10 system that is based on performance. And a flat system will
11 not meet peak demand.

12 If you have a system that is based on performance,
13 put in west or southwest, you will be meeting the peak demand
14 in the late afternoon, which is exactly what we need to avoid
15 building more peaker plants.]

16 So I urge you to move as quickly as possible.

17 The second thing is we have a panel shortage.
18 When panels are not produced -- put in for performance, you
19 have to use more percentage panels to produce the same result
20 of energy.

21 I want to also urge you to put performance-based
22 in with the new home construction. And the reason I say that
23 is that in the hot territories, PV works less efficiently
24 than it does in the cool territories, but solar hot water
25 works extraordinarily well. And that's part of our program.
26 And solar thermal electric works extremely well. So if you
27 balance where the construction is going and you're careful to
28 use the proper technology, we will get the best bang for the

1 buck.

2 And solar hot water -- you can put in a solar hot
3 water system for about 5- to \$6,000, and eliminate a great
4 usage of natural gas. And I know this may sound strange for
5 a PV installer to be telling you about, but we care in
6 Americans for Solar Power about all solar installations.

7 And another thing is Bill Brooks, who is well
8 known in the industry, has shown that building integrated
9 technology with new homes in a hot area can produce
10 18 percent less power than if it's put in a cooler
11 temperature.

12 So I urge you to be very careful about what
13 technologies are going in. And that whole problem will be
14 obviated if you put in performance-based incentives.

15 Thank you so much. And we're very grateful to
16 you.

17 COMMISSIONER PEEVEY: Thank you.

18 The last speaker, Jane Turnbull.

19 MS. TURNBULL: Good afternoon, Commissioners and
20 Secretaries. I am Jane Turnbull, from the League of Women
21 Voters in California.

22 My comment is very brief. I particularly want to
23 note that the League has supported the IEPR process this
24 year. We think this is an extremely fine process. It's been
25 well run by the two Commissioners and the staff. Support has
26 been great. The outcome -- the output has been comprehensive
27 and timely.

28 With that in mind, we would like to make a comment

1 in terms of the PUC process. We think that the PUC has begun
2 to move in the right direction over the last years by making
3 more inclusive rulemakings. However, those rulemakings,
4 while they may be more comprehensive, have not necessarily
5 been more timely. We would urge the PUC to take a look at
6 its current process, to see if there are ways that it can
7 adopt a workshop-type format on more occasions, and make the
8 proceedings more timely.

9 One other comment I'd like to make. I'd like to
10 commend the previous speaker for her comments. The League
11 has supported performance-based rates across the board. We
12 did not support S.B. 1 as a Bill, though the new proposal
13 looks as though it is leading our very real concerns about
14 the other components of the total program, but we certainly
15 would like performance-based rates to be considered as an
16 aspect.

17 Thank you.

18 COMMISSIONER PEEVEY: Thank you very much.

19 Is there anyone else who would like -- in the
20 auditorium here would like to come forward to say anything to
21 us assembled here?

22 If not, we're about at the end of our -- the day.
23 Are there any Commissioners or Secretaries who would like to
24 add any final words? Comments?

25 Commissioner Brown.

26 COMMISSIONER BROWN: Yes. I just have one reflection
27 on listening to the speakers. And that is that the -- I
28 think that we have to move toward greater coordination with

1 the munis.

2 I think this idea of a fragmented energy system --
3 not only whether it's transmission, but energy planning -- is
4 not healthy. And that we need -- it's one state. We're not
5 islands of jurisdiction. And I know that it steps on an
6 awful lot of toes to talk about integrating the munis into
7 the state planning, but I think as we approach a tighter and
8 tighter energy system, and the need for a greater energy
9 efficiencies, the unity of the programs really must be sought
10 out.

11 COMMISSIONER PEEVEY: Thank you.

12 Anyone else?

13 Joe Desmond.

14 CHAIRPERSON DESMOND: I just wanted to first thank the
15 staff for the hard work putting all this information
16 together, as well as Commissioners Geesman and Boyd, who sat
17 through the process, which is a significant part of this
18 process.

19 Once again, lastly, just the general observation
20 that the State continues to make positive progress towards
21 bringing regulatory certainty in cost recovery resource
22 adequacy. And, even looking at the summer outlook, 2006 is
23 better than 2005, which is an improvement over where we were
24 in 2004. So I think all the signs are that we continue to go
25 forward in the right direction.

26 I look forward to these continued forums in the
27 future.

28 COMMISSIONER PEEVEY: Thank you very much.

1 Well, this meeting will conclude.

2 And the next joint meeting of the various agencies
3 will be undoubtedly in Sacramento in the March/April time
4 frame.

5 Thank you all very much for coming here, and all
6 my colleagues, too.

7 (Whereupon, at the hour of 4:12 p.m., this
8 matter was adjourned.)

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